

## ECONOMIC DIPLOMACY AS AN INCENTIVE TO THE DEVELOPMENT OF ENTREPRENEURSHIP

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### **ABSTRACT**

*Entrepreneurship plays an important role in the context of economic diplomacy as a basis for the strengthening of the economic ties between countries. Entrepreneurs are key players in international business, and their innovation, adaptability and entrepreneurial spirit can stimulate trade, investment and development. By supporting entrepreneurs, economic diplomacy helps create sustainable economic growth and development. Adaptation and full understanding of economic, global and historical circumstances and principles can lead to progress and stability not only in the internal organization of the state, but also in its relationship, business and contact with other actors on the global scene. This paper contains an overview of activities that are considered a direct link between economic diplomacy and the development of entrepreneurship, or rather, it explains how entrepreneurs are represented through economic diplomacy.*

**Keywords:** *diplomacy; entrepreneurship; globalization; international relations*

## 1. INTRODUCTION

Diplomacy as a term is difficult to explain, primarily because it has multiple meanings depending on the connotations a person attaches to it, but it is primarily explained as a political activity, i.e. conducting state affairs in the field of foreign policy through official relations with other states and international organizations, and then as the form and content of relations between states which are created and maintained by official ties and which seek to harmonize interests (Berković, 2006). A less easily explained or important term within the sphere of diplomacy is, of course, economic diplomacy, one of the definitions of which is that it is actually a process of national interest in which national business entities in the global economy acquire an optimal position thanks to the intelligence community and the highest government officials, and it can also be (Bazdan, *Gospodarska diplomacija i patološki trendovi globalne ekonomije*, 2005) explained as a combination of international communication with the protection and promotion of one's own economic interests (Žirovčić, 2016). What is indisputable is that the process of globalization, international economy, international institutions and entrepreneurship as the basis of the economic progress of the community are necessary for the explanation and study of economic diplomacy.

The subject of this paper is the analysis and definition of the concept of economic diplomacy as one of the main features of today's globalized world, an overview of the origin and development of economic instruments of the state's foreign policy, as well as the process of globalization itself. The aim of the work itself is to describe and prove the thesis that adaptation and full understanding of economic, global and historical circumstances and principles can lead to progress and stability not only in the internal organization of the state, but also in its relationship, business and contact with other actors on the global scene. The work also contains an overview of activities that are considered a direct link between economic diplomacy and the development of entrepreneurship, or rather, it explains how entrepreneurs are represented through economic diplomacy.

## 2. ECONOMIC INSTRUMENTS OF THE STATE'S FOREIGN POLICY

The state's foreign policy is not at all easier to define than economic diplomacy, but one of the more prominent definitions of Professor Radovan Vukadinović states that foreign policy is the organized activity of the state by which it tries to maximize its values and interests in relation to other states and other entities operating in the external environment (Vukadinović, 2004). The subject of research in this paper is the concept of economic diplomacy, and in order to define it and ultimately understand it, one should start from the analysis of the economic instruments of the state's foreign policy. They are defined as any possibility, institution or policy that is applied to achieve foreign policy goals and has indirect or immediate foreign policy characteristics (Vukadinović, 2004). Political goals that are to be achieved with economic instruments can be economic (import/export), political (expansion of influence) and military (military bases). In the discipline of international relations itself, it is important to determine the direction of economic instruments, that is, to see how they develop and affect the actors of international relations. The state itself, as the bearer of power, can act on economic instruments by strengthening eco-

conomic strength and development, using the very instruments it already possesses, providing economic assistance to its allies and limiting its enemies.

One of the most important, if not the most important, economic instrument of a country's foreign policy is, of course, trade. Similar to diplomacy, trade also has its beginnings, i.e. it experiences strong growth and gains importance in the era of the first city-states. Ancient Greeks, Phoenicians, Mesopotamians - all began to develop trade ties in order to strengthen their position and bring it to stability within the then existing international relations. Behind the great geographical discoveries and the colonization that followed as a result, came the transformation of trade as an essential means of economic activity of states. At that time, trade had almost a separate place in international relations, i.e. it was seen as a need and trade moguls often had a stronger role in the international market than the state. In today's world, trade is a systematic part of state activity and receives special attention from every government because of this. The importance of trade is best demonstrated by the example of the United States of America, which was self-sufficient for a long time, but today depends on the import of numerous raw materials and must maintain its place on the international market. In international trade relations, the goal of each actor is to ensure its production, consumption and defense. One of the methods of developing today's trade is its direction, i.e. changing the way and form of trade exchange in order to create more favorable conditions for individual countries. Such guidance has various purposes, including financial assistance to allied countries or ensuring the retention of one's position within the political system of a third country, as exemplified by some former colonies of France and Great Britain. Trade direction instruments are mainly bilateral trade agreements, preferential tariffs, quotas, special credits and price changes. International agreements of an economic nature can also be mentioned here, which primarily serve to universalize international trade. In addition to economic instruments, international organizations also play an important role, that is, some of their bodies in charge of economic issues, such as the United Nations Economic Commission for Europe. Trade cooperation between countries can also be improved by providing economic assistance, as already stated. The aid provided can be divided into aid given for the purpose of development by investing foreign capital exclusively for this purpose, technical aid aimed at the development of education and improvement of economic production, and special programs whose purpose is the economic and political strengthening of the internal structure of the state and its stabilization.

The first form of aid, i.e. aid for development, dates back to the 19th century, when Western European countries, such as Great Britain, began to help today's developing countries, as well as the United States of America, which was still a young and underdeveloped country at the time. And not only states participated in this, but also private persons or companies helped in order to market their own products or increase their capital in the future, but also to achieve certain political ambitions. The Second World War changed a lot of things, including the position of the United States of America, which became the main issuer of loans and aid to Western European countries. This help was not so much in the sense of marketing some products, as in increasing the influence in that area to prevent the spread of communism in Europe. They later shifted their aid to Africa, Asia and Latin America.

Technical assistance began to be applied after the Second World War through the creation of an educational network and the transfer of experience and techniques, mainly on the basis of bilateral agreements, and not through international institutions. What distinguishes it from the first form of aid is the fact that smaller countries can also participate in it, although the larger ones are more influential and take the lead over them. The United States of America, as well as the People's Republic of China, which are at the top of the list of technical assistance providers, send their experts to various countries around the world, especially developing countries.

The third type of aid is various programs for the purpose of further development and preservation of the stability of a country, but what distinguishes them from the others are the goals that the country providing the aid wants to achieve. Some countries give aid in order to obtain certain permits, such as to maintain their own military forces, to avoid certain procedures or difficulties, or to maintain the country's production at a certain level.

But, of course, every story has two sides, and so does economic activity. In addition to providing assistance to countries, there may also be so-called economic warfare, i.e. the use of economic instruments to prevent the development of opponents. Economic warfare is characterized by the use of means at the top of weakening the opponent, which in wartime can mean various blockades and controls, but mainly implies the application of high customs rates, import quotas, boycott of goods from certain countries, embargo on the export of raw materials or goods of a certain country, refusal of credit and economic aid or manipulating the exchange rate of certain currencies. States against which these means are used generally retaliate in kind, which makes it difficult to establish normal relations and prosperity.

What can be drawn as the conclusion of the whole story about economic action and instruments of foreign policy is that no country can survive on its own and that the economy is a key element of the country's success. The international community must act as a whole in solving the economic problems of all countries, and not disperse and help only certain ones in order to secure their own benefit. And considering that the economy and the political activities of the country are very closely related, solving economic problems will certainly lead to the stabilization and consolidation of political power within the country itself (Vukadinović, 2004).

### 3. GLOBALIZATION AND ECONOMIC GROWTH

Globalization is defined as economic, social, political and cultural processes that lead to the transformation of living conditions and the increasing connection and interdependence of individual parts of the modern world. On the economic level, globalization is manifested in the growing interdependence of the markets and production of individual countries under the strong influence of the exchange of goods and services and financial and technological flows. Globalization activities are normatively coordinated and conditioned by global institutions such as the World Bank, the International Monetary Fund and the World Trade Organization. On the political level, globalization manifests itself as a process that increasingly calls into question the traditional role of the nation state and the concept of sovereignty. Namely, many world problems are beyond the sovereign power of the national state: environmental problems, problems of terrorism and crime, problems

created by local and regional conflicts, and because of this globalization radically changes the bipolar structure of international political relations, affects the actions of individual states, on a more flexible understanding sovereignty, as well as the expansion of various non-governmental organizations, institutions and agencies (Enciklopedija, 2023).

In simpler terms, globalization is the connection of economic, social and political factors at the international level and is not necessarily just an economic term. However, it is not the definition of the concept of globalization that is disputed in the research itself, but rather its impact on today's world, that is, the polemics about whether globalization brings more good or evil. By Michelle Catherine Baddeley from the University of South Australia, there are two approaches in economics when it comes to globalization and the economic growth of a country: the benefit of trade and the openness of the world market for developing countries and the restrictions, inequalities and other problems that arise as a result (Baddeley, 2006). The connection between globalization and the economic growth of a country is not new in economic research, and there are many works and analyzes that dealt with exactly that topic, and one of the more famous is the research of the German economist Axel Dreher conducted on 123 countries, which showed that only economic globalization affects economic growth, not political or social (Dreher, 2006).

#### 4. ECONOMIC DIPLOMACY

According to Zdravko Bazdan, economic diplomacy is a process of national interest in which national business entities gain an optimal position in the global economy thanks to the intelligence community and the highest state officials (Bazdan, *Gospodarska diplomacija i patološki trendovi globalne ekonomije*, 2005). He states that economic diplomacy is necessary for the economic growth and social development of the most developed countries in the world, but also that it would not be possible without the institutions that stand behind it, such as the intelligence services that serve as a source of business information. As proof of his theory, he cites the examples of the world's most powerful economies: the United States of America, Japan, the People's Republic of China, Germany, France and Great Britain, among which there is daily turmoil and a struggle for business information.

However, for most authors, economic diplomacy is a means of the economic foreign policy of a country and is not based exclusively and only on information obtained by the intelligence services. Actors participating in the implementation of economic diplomacy can be state and non-state, the field of activity itself can vary from the international economy to international organizations and national economies. In this paper, the research focus is on the economic diplomacy of state actors such as diplomatic representatives, state agencies or government representatives and is defined as a set of all state activities in the protection and promotion of its own economic interests within the framework of economic diplomacy and commercial diplomacy.

The main focus of economic diplomacy is economic policy within the framework of international organizations and state governments, while economic diplomats use various economic resources in the form of rewards or sanctions to shape the behavior of actors in international relations, and they mostly come from the ranks of the Ministry of Foreign Affairs or the Ministry of Economy. Economic diplomacy is of course motivated by eco-

conomic interests and is carried out by increasing the GDP of a certain country in order to break through and remain on the world market by exporting products or by compromise and agreement instead of occupying territory or coercion, as was the case in the past. In today's world shaped by the process of globalization, economic diplomacy occupies one of the key places because economic national interests are of great importance for every country and must be clearly defined and implemented in order for the country to be considered economically strong.

Commercial diplomacy includes the activities of diplomatic and consular missions that help achieve the economic goals of the sending country in the receiving country. These include the promotion of foreign investments and trade relations, the collection of information about the export and import of the receiving country, about investment opportunities and the overall promotion of one's own country in all other areas, not only economic ones (Žirovčić, 2016).

Each country has its own model of economic diplomacy, depending on its economic, social and cultural development. Although the models can be divided into certain groups and analyzed from that perspective, it is not a rare case of a combination, that is, the arrangement of individual elements of certain models into a new, unique whole that corresponds exclusively to the country to which it is attached.

## 5. DEVELOPMENT OF ENTREPRENEURSHIP

Entrepreneurship plays an important role in the context of economic diplomacy as a basis for strengthening economic ties between countries. Entrepreneurs are key players in international business, and their innovation, adaptability and entrepreneurial spirit can stimulate trade, investment and development. By supporting entrepreneurs, economic diplomacy helps create sustainable economic growth and development. The economic growth of the country can be quantitatively observed as a dimension of economic development, which is manifested in the increase of production and production capacity. It is usually expressed as gross domestic product or GDP per capita, the growth of which is a necessary condition for economic development. Without economic growth, it is impossible to sustainably improve the quality of life in any area, and it is affected by two different and complementary mechanisms, one that is established by companies and one that arises from entrepreneurship itself. Entrepreneurship itself can be said to continuously change economic structures by creating something new that has a certain value created as a result of dedicated effort and time. Most of the world's economies, both the most developed and those in transition, rely on entrepreneurship as their main backbone. Therefore, it is possible to conclude once again that modern entrepreneurship is considered the main generator or driving force of the development of national economies (Šipić, 2012).

This support can be achieved in several ways, the most famous of which are: strengthening competitiveness, partnerships and collaborations, innovations and technologies, investments and, of course, exports and international trade. In the Republic of Croatia, the connection between entrepreneurs and economic diplomacy is best manifested in the work of the Croatian Chamber of Commerce and various Embassies. In 2017, the Croatian Chamber of Commerce conducted a survey among Croatian companies whose busi-

ness is largely dependent on exports in order to identify the most common problems they face and thereby minimize them. The results of the research showed that as many as 84% of Croatian companies cite inadequate and completely insufficient financial support when entering foreign markets as the main problem, which they consider to be the biggest obstacle to exports. More specifically, the companies complained about the insufficient availability of credit lines from HBOR, the absence of appropriate financial support programs and excessively high interest rates. The next obstacles they face are the unfavorable tax system and the lack of a clear export strategy, and, for this work, the most important economic diplomacy, which they consider necessary in their work, but insufficiently active (Komora, 2017). Namely, more effective economic diplomacy is the basis for the further development and progress of Croatian entrepreneurs. This is where the previously mentioned Croatian Chamber of Commerce and various Croatian representative offices, i.e. embassies, come into play, because their function is to create a work framework and offer concrete solutions for exporting to foreign markets. Human resources are very limited in the representative offices, and one diplomat very often covers too many areas at once to devote himself to each with the same capacity, which leads to a loss of awareness of the very important work they need to carry out - the interest of Croatian companies in foreign markets.

## 6. CONCLUSION

As stated before, this paper reviews the activities needed to strengthen the link between economic diplomacy and entrepreneurship. In the Republic of Croatia, there is currently a strong connection between these two terms, but it can certainly be stronger and should be constantly developed and invested in. Economic diplomacy is an area that often falls into the shadows because it is not discussed so often in everyday discourse, but it contains great power. This power is manifested in the responsibility towards Croatian companies and the Croatian economy in order to present them to the world in the best possible way and enable the strengthening of Croatian entrepreneurship. The Croatian Chamber of Commerce and Croatian representative offices around the world serve entrepreneurs, regardless of whether they are small, medium or large, and as such should provide them with all the benefits they can. The review of the available literature showed the importance of economic diplomacy in the development of entrepreneurship and proved the thesis of the necessary stronger interest of diplomats in the promotion of Croatian products and investment in exports. In this way, the assumption was created for the initiation of further research activities which would further investigate the significance and impact as well as the results of the work of economic diplomacy with regard to the development of entrepreneurship and entrepreneurs.

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