The Economic Effectiveness of Diplomatic Representation: An Economic Analysis of its Contribution to Bilateral Trade

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Summary
This article empirically investigates the contribution of different forms of diplomatic representation to the bilateral trade flows (both exports and imports) of a group of 63 countries. The authors report on the construction of a data set that covers 10,524 diplomatic representations. They use these representations as one of the explanatory variables in an applied trade model (the gravity model) for 3,730 bilateral trade flows in order to measure to what extent these representations are economically effective, in the sense that they are associated with larger trade flows. The authors distinguish different forms of international representation in the field of economic diplomacy (such as honorary and career consulates, embassies and embassy branches, and trade and other offices) and find positive and highly significant effects for embassies but mixed results for the other forms of representation. Finally, the authors provide a comparative perspective on the effectiveness of the 63 countries’ foreign services and classify the countries according to the average performance of their network of foreign representations.

Keywords
economic diplomacy, effectiveness, gravity model, trade promotion, consulates, embassies

Introduction
Diplomats and workers at embassies and consulates fulfil different tasks and functions, including decision-making, information-gathering, international representation, and support to domestic firms in entering foreign markets. The promotion of trade with, and investments in, foreign countries is increasingly seen as an essential task of diplomats, embassies and consulates. Some claim that this reflects

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a new trend of diplomacy that is commonly referred to as ‘economic diplomacy’. More generally, however, economic diplomacy can be defined as the use of international political tools — diplomacy — to achieve economic objectives and as such has existed ever since ancient civilizations have engaged in commerce and trade.

In an attempt to move the field from basic narratives and conceptual levels to more empirical studies, this article follows an interdisciplinary approach using relevant elements from economic science and econometrics (the applied gravity model of international trade) and political science methods (the policy analysis on international representation) in order to determine the effectiveness of countries’ international representations. The article focuses on the empirical question of whether diplomatic representation is economically effective, in the sense that representation is statistically associated with trade volumes. The article also considers the questions of which types of diplomatic representation are most effective and which countries deploy these economic diplomatic instruments most effectively across the globe. In answering the latter question, the (sub-)optimality of the geographical pattern of a country’s diplomatic representation is analysed. The article focuses on a specific, narrowly defined aspect of the international diplomatic network of nations and its relationship to the economic diplomacy of international trade, because it is measurable and therefore a practical means to operationalize the broad concept of economic diplomacy. It is important to note from the outset that the results cannot be generalized outside of this domain (which is also relevant in the context of this special issue of The Hague Journal of Diplomacy, since ‘economic diplomacy’ is a very broad concept) and that the authors were unable to differentiate economic representation with respect to, for example, the number and type of activities or the quantity and quality of staff. All such factors are by implication subsumed in the assessment of effectiveness, which basically boils down to the question of whether foreign representations are a statistically significant explanatory variable in international trade.

Economists basically see economic diplomacy as a type of government intervention in international markets. The analysis of why and how a government intervenes in markets is a well-established field of study within public economics. The two key requirements for any government intervention are that the benefits must outweigh the costs of intervention, and that the intervention is targeted as

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