



## THE IMPORTANCE OF THE ECONOMIC DIPLOMACY FOR THE TRANSNATIONAL CORPORATIONS IN GLOBALIZATION ERA

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**Abstract** *In this context of globalization of business and the struggle for markets and clients, transnational companies are obliged to develop internal powers for the creation, cultivation and management of relationship high-level with governmental bodies sophisticated, influential and relevant for the Company. For this reason, companies will be unable to develop these skills without deep knowledge and updated economic diplomacy.*

### Keywords

Economic diplomacy, globalization, transnational corporations

### 1. Introduction

Economic globalization is a historical process, the result of innovation and technological progress. Each form of organization of the world has its potential to accomplish freedom, creativity and danger. The period between the mid nineteenth century and the late 20s of the twentieth century can be considered a first era of globalization. At that time, Great Britain, invested heavily in emerging markets, and those who subsidized the political measures of America and Europe fell victim to the financial crisis triggered by the bonds rate decrease of the Argentinian railways, to the Latvian state loans or the German Treasury bonds. At that time there was no exchange control, so that when the transatlantic telegraph cable was introduced, banking and financial crises from New York arrived in London and Paris. Before 1914, people migrating very far without the requirement of a passport to travel abroad. And together with the invention of the steam engine, railways and finally the phone, one can say that this first era of globalization before World War I caused the world to pass from size "L (large) to size "M (medium)". The first era of globalization has received successive blows: World War I, the Russian Revolution and the Great Depression of 1929 and their conjugated effect led to the division of the world in the aftermath of the World War II, both geographically and ideologically. The reorganization of the world remained in effect because the Cold War ended with the fall of the Berlin Wall, and that was the moment when we started to discuss about the new era of globalization. Currently, globalization is a frequently used term and which we can ascribe different meanings (the globalization of

information and culture, the spread of television, Internet and other forms of communication, increased mobility marketing ideas), all leading to compression of the world size "M" to size "S (small)." The globalization of world economy has led to efficiency and competitiveness, but also increased the potential of developing economic - financial crises. Whether we like it or not, whether we are for or against globalization, nothing can change the course of things (Mionel, 2010).

### 2. For or against transnational corporations

Transnational corporations have a special role that influences the process of globalization within the economic factors. Because corporations are at the center of globalization, they can be blamed for many of its negative sides, but can also be credited for many of its achievements. Opponents of globalization often denigrate transnational corporations, portraying them in documentaries such as *The Corporation* (2003) and *Wal-Mart: The High Cost of Low Price* (2005) as greedy, soulless entities which place profit above all. Many examples of negative corporate behavior rightfully gained truly legendary disrepute: Nestlé campaign to convince mothers in the Third World to use powdered milk to feed their children, instead of breast milk; the half a century conspiracy of American tobacco companies in order to convince people that there is no scientific evidence regarding the fact that smoking seriously harms, even if their own studies confirm the opposite (the film *The Insider* 1999 shows very good conspiracy); the production of Monsanto seeds of plants that spring up which in turn produce seeds that cannot be replanted, thus forcing farmers to

buy new seeds every year; massive oil spill following the sinking of the oil tanker Exxon Valdez Company and its subsequent attempt to avoid paying compensation. However, transnational corporations have an important role in spreading the benefits of globalization in developing countries, helping to increase the standard of living in many regions of the world. Corporations made possible the penetration of products from developing countries on advanced industrialized country markets; modern corporation ability to immediately tell producers what international consumers want represented a huge advantage for both parties. Corporations were agents of technology transfer from industrialized countries to developing countries, helping to reduce the gap between the two worlds. Corporations have created jobs and boosted economic growth in developing countries; developed countries have brought in cheap goods, thus quality increasingly better, resulting in fewer costs of living and contributing to lower inflation and interest rates (Chitiba and Mionel, 2012).

### 3. What is economic diplomacy?

The term *diplomacy* comes from international relations, political science, and more specifically from the field of diplomatic studies. Pigman explains that "early modern usages of diplomacy were largely concerned with the process: the art of negotiation, and how to use negotiating effectively to achieve objectives of states" (as cited Huub Ruel).

In the context of business globalization and the struggle for markets and customers, transnational companies are obliged to develop internal powers for the creation, cultivation and management of high-level relationship with sophisticated governmental bodies, who are influential and relevant to the company. For this reason, companies will be unable to develop these skills without deep knowledge and updated economic diplomacy.

Economic diplomacy can be comprehensively defined; thus it can be seen as achieving economic objectives through diplomatic means and an efficient framework of institutional cooperation in order to achieve the objectives of economic promotion abroad. In addition, economic diplomacy is considered a function that connects foreign policy efforts and economic welfare of the citizens of a country. Gheorghe Pistol shows diplomacy in his book *Negotiation - theory and practice* as "one of the terms that can be best tackled rather by considering the contexts of its use than by trying to establish only one meaning. Overall diplomacy can be defined as the management of international relations through negotiations and not by force or other means. Diplomacy can be interpreted as the art of negotiation, gradually adapting to changes in the political environment" (Pistol, 1994).

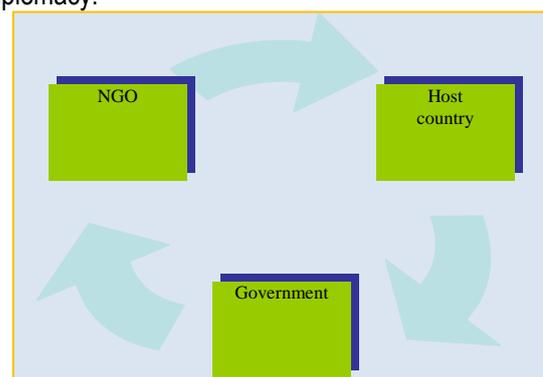
The agenda of economic diplomacy is comprehensive and it includes, among matters relating to foreign trade relations, promoting national economic interests in other countries, information and updating potential foreign investors about investment opportunities, negotiating economic and trade agreements, and cooperation in order to overcome economic divergences and harmonize standards in various sectors (economic, social, environmental, educational etc.).

### 4. Why transnational corporations need economic diplomacy?

#### 4.1. International corporations and nation states

Currently, corporations are facing many problems whose solutions not only depend on them. Thus, corporations must identify new methods and techniques to survive on the market and to solve problems. In addition, the central point of transnational corporations at the moment is the rapid and efficient communication and collaboration between branches and subsidiaries worldwide. Influenced by the rapid movement of technological, economic, social and geopolitical factors the global business paradigm of transnational corporations is currently following Shaun Riordan's statement, an expert in diplomacy and international business, *in the XXI century diplomat, or you're either a diplomat, or you're out of the game*.

In the beginning of the 21<sup>st</sup> century, transnational corporations pursue their activities in a complex business environment of rapid change and a triad host country - government - NGO which corporations may face only by appealing to subtleties of economic diplomacy.



Source: authors

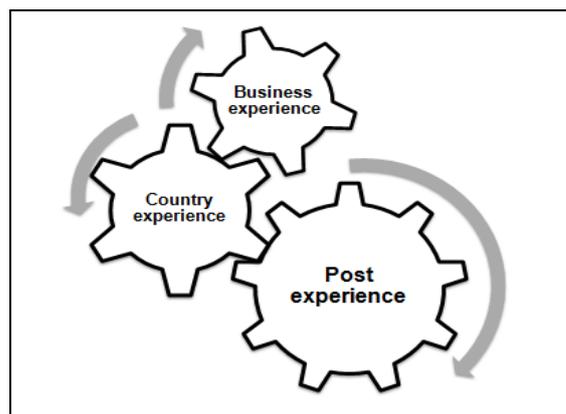
Figure 1. Transnational corporations and triad

States represent the arena or the stage, but that does not mean that they are also major players. States are not the only actors on the stage of international relations and not even the most important ones. This idea is supported by the four hypotheses stated by Susan Strange:

- First hypothesis: states withdrew their participation in the ownership and control of industry, services and trade, and even guidance on research and innovations in technology; why?, how?, produced by whom? and where? are questions answered by TNCs;
- Second hypothesis: TNCs, have lately done much more than states and international organizations did to assist the population in the undeveloped South;
- Third hypothesis: this hypothesis concerns the management-employee relationship; transnational corporations have come to watch and even take over the role of governments to resolve conflicts of interest;
- Fourth hypothesis: by market internationalization TNCs wangle taxation policies (Strange, 2001). Dealing with corporations – a triad of three main causes: consumers' quick access to information through corporate governance, emerging markets and the emergence of numerous communities campaigning against corporations. For this reason, transnational corporations should be very attentive to the details of working conditions, environmental standards and employment practices that could destroy the reputation locally and /or internationally. To manage the situation and to reduce or avoid the risk of diminishing the importance of the international business scene, transnational corporations have to move their center of gravity to the importance of economic diplomacy and the key role they have among the business corporation diplomats.

#### 4.2. Business Diplomats

Transnational corporations' diplomats or business diplomats have the task to negotiate, renegotiate and make compromises with local authorities. Meanwhile, business diplomats should be sensitive to local and international NGOs that frequently monitor corporate activity [8]. Using diplomacy in business greatly helps corporations to shape geopolitical risk, given that they operate a lot on international markets. This internationalization process exposes corporations to numerous geopolitical risks and other noncommercial risks in an unstable and unpredictable international environment. Diplomacy in international affairs aims to adapt the skills and mind of the diplomat to the business company needs. It facilitates the exchange of best practices in geopolitical analysis and risk management between the government and the private sector. While larger companies begin to prepare their own business diplomats, small firms will seek support from diplomats made available by various consulting firms or other institutions. Diplomacy can be considered a keyword and a further explanation for the success or failure of international business. The diplomat's role in international affairs is to find the best solutions to difficult situations in a fair and peaceful manner.



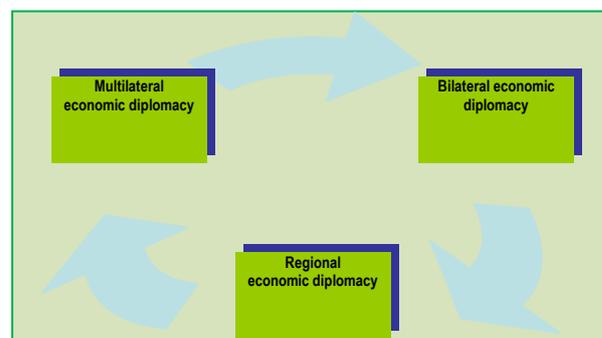
Source: authors

Figure 2. The business diplomat

The business diplomat must be dominated by a cosmopolitan spirit, showing interest and sympathy for countries which develop businesses and to people with different cultures.

#### 5. Economic diplomacy at the bilateral, regional and multilateral level

Economic diplomacy is working on three levels: bilateral, regional and multilateral. Economic diplomacy plays a major part in bilateral economic relations. This includes bilateral agreements on trade, investment, employment, taxation, and a wide range of formal and informal economic issues between the two countries. Currently, bilateral Free Trade Agreements have been implemented in many countries around the world. Regional cooperation takes on a growing importance in economic diplomacy. National interests and economic liberalization are well served, particularly in the context of a particular region. Removing barriers and opening markets become easier in a regional framework. Multilateral economic diplomacy is manifested in the World Trade Organization (WTO) and the frame of numerous international economic and financial organizations such as the World Bank, International Monetary Fund, various UN agencies.



Source: authors

Figure 3. Economic diplomacy

## 6. The items of economic diplomacy

Typically, economic diplomacy is based on three elements: the influence of politics and international relations, economic security and strengthening the international political climate.

- It uses political influence and international relations to promote and/or influence international trade and investment, improve the functioning of markets and/or address market failures and reduce costs and risks of cross-border transactions (including property rights).

- Economic security is considered a subfield of economic diplomacy.

The service identifies vulnerabilities and causes that undermine and/or affect the state's economy; intervenes by informing authorities, depending on the case, situation or threat, to develop measures to prevent or counteract.

Harnessing information is carried mainly by institutions with decision-making power in the country by legal, criminal and administrative, economic, political and social measures.

- Strengthening the political climate at an international level is also part of diplomacy. This subfield refers to multilateral negotiations and the organizations and transnational institutions such as the World Trade Organization, Organization for Economic Cooperation and Development and the European Union.

## 7. Conclusions

To be successful in international business in the coming years, transnational corporations should understand that economic diplomacy must be used. Moreover, diplomacy is made as a keyword in international affairs that belong to the 21<sup>st</sup> century. Transnational corporations and nation states must fairly conceive the rules of the game in international affairs and economic policy. They also have to understand both the internal environment and the foreign policy. For transnational corporations and nation states, international economic relations and economic diplomacy are essential aspects of maintaining and developing business internationally. In conclusion, economic diplomacy includes essential elements for international affairs: bilateral and multilateral economic relations, rules of international economics and regulations, WTO, economic security, development strategies, international investments, international cooperation, conflict resolution, international economic organizations and moreover, business diplomats.

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