

**Economic Diplomacy
in Georgia:
Existing Practice and
Future Prospects**

PMC Research
Center

PMC Research Policy Paper

2019
Tbilisi

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in Georgia:
Existing Practice
and Future Prospects**

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Research



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Abbreviations

BDD	Basic Data and Directions
BIS	Bank for International Settlements
DCFTA	Deep and Comprehensive Free Trade Area
EFTA	European Free Trade Association
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
Geostat	National Statistics Office of Georgia
GITA	Georgia's Innovation and Technology Agency
GNIA	Georgian National Investment Agency
GNTA	Georgian National Tourism Administration
GOG	Government of Georgia
IOB	Policy and Operations Evaluation Department of the Ministry of Foreign Affairs of the Netherlands
MFA	Ministry of Foreign Affairs
MNC	Multi-National Corporation
MoESD	Ministry of Economy and Sustainable Development
MOF	Ministry of Finance
OECD	Organisation for Economic Co-operation and Development
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

Executive Summary

The purposes of this policy paper are to present the priorities of the Government of Georgia (GoG) in economic diplomacy, to map economic diplomacy institutions, and to describe their functions. It also aims to present practical cases of conducting economic diplomacy. Case studies of selected EU Member States which have assigned strategic importance to economic diplomacy in achieving their economic development goals are presented and these contribute to the elaboration of recommendations for Georgia.

While Georgian governmental institutions are equipped with all of the main functions of economic diplomacy, the lack of a whole of government approach in pursuing coordinated and strategically justified activities is observable.

To improve the functioning of economic diplomacy institutions, the two following reform options have arisen from international experience:

- Comprehensive institutional changes reflected in unifying major economic diplomacy functions under one institution; or
- Incremental modifications to improve the coordination, cooperation and elaboration of strategic attitudes.

Research results demonstrate that Georgia can achieve improvements in economic diplomacy under its current institutional structure and with the currently available resources. Consequently, we recommend the second of the two above options for Georgia, with the following specific recommendations to bear in mind:

- Development of a vision document for Georgia's economic diplomacy
- Creation of an Economic Diplomacy Council
- Capacity building of economic diplomats
- Prioritization of economic diplomacy activities
- Development of a methodology for the prioritization of markets
- Development of individual strategies for target markets
- Prepare and publish annual review of Georgia's economic diplomacy

Introduction

A properly functioning economic diplomacy system and economic diplomacy institutions are reliable instruments in supporting the economic development of the State. They can enhance the attraction of foreign direct investment (FDI) in targeted sectors, export growth in strategic markets, identification of new export destinations and contribute to the achievement of other economic goals according to the strategic priorities of the country. Economic diplomacy plays an important role in diversifying the industrial and export structure, thus contributing to the economic security of the State and the wellbeing of its citizens. UNCTAD states: "In foreign markets diplomats can lend key support to these [investment promotion] agencies because of their proximity to potential investors and their knowledge of economic and political conditions in the countries where they are posted" (UNCTAD, 2011). A positive relationship between economic diplomacy and export promotion was found by a study of the Policy and Operations Evaluation Department of the Ministry of Foreign Affairs of the Netherlands (IOB). Based on an econometric analysis, the IOB stated: "it can be concluded that there is a significant positive relationship between the use of economic diplomacy (trade missions and information provision) by Dutch companies and the total value of export goods from the Netherlands to Latin America" (IOB, 2013).

Georgia's foreign economic relations have intensified in recent years. In 2014, the country signed an Association Agreement with the European Union that envisaged the creation of a Deep and Comprehensive Free Trade Area (DCFTA) between the signatories. Meanwhile, from 1st January 2018, a free trade agreement (FTA) between Georgia and China came into force, and on 1st May, 2018, an FTA between Georgia and the European Free Trade Association (EFTA)¹ became effective. On 28th June 2018, an FTA with the Hong Kong Special Administrative Region of the People's Republic of China was signed. The GoG plans to further expand the coverage of FTAs to support the export of Georgian products and to attract export-oriented FDI. These developments have increased economic interest in Georgia among partner

¹ Intergovernmental organization of Iceland, Liechtenstein, Norway and Switzerland set up for the promotion of free trade and economic integration.

states and multi-national corporations (MNCs). Official statistics also demonstrate positive trends in this regard. According to Geostat, international trade is on a growing path: preliminary data demonstrates that turnover in 2018 amounted to USD 12 484.4 million (17% higher than 2017), with exports amounting to USD 3 362.1 million (22.9% higher than 2017) and imports amounting to USD 9 122.3 million (14.9% higher than 2017).

With this intensification of international economic relations, the effective use of the economic diplomacy resources of the country becomes a top priority. The system should be capable to respond and adapt to the changing circumstances at international, regional and local levels: “As the market conditions change, the need to modify economic diplomacy arises. The instruments need to respond the most current need and innovation in economic diplomacy is crucial in order to stay up to date with actual global and domestic situation” (Czarnecka-Gallas, 2012).

Accordingly, the capability, adaptability, and innovativeness of governmental ministries, agencies and Georgia’s embassies, as well as their coordination and orchestrated activities, are decisive in promoting the interests of the State according to its strategic economic priorities. Consequently, a re-think of Georgia’s economic diplomacy is needed.

This policy paper contributes to this process and gives recommendations to improve the functioning of economic diplomacy institutions. The specific aim of the research is to analyze the institutional structure of Georgia’s economic diplomacy, the functions of governmental agencies, and how economic diplomacy activities are practiced with the emphasis being on investment and export promotion. To achieve this, functional analysis of relevant organizations, as well as research of existing practices, tools and methods deployed in pursuing the economic diplomacy of Georgia, have been conducted. Desk research methodology was used for the analysis and semi-structured interviews with officials involved in economic diplomacy activities were also conducted to better understand the functioning of Georgia’s economic diplomacy in practice. In addition, a case study methodology was used for the analysis of the experiences of states who had successfully pursued economic diplomacy. As a result, policy, administrative and capacity building actions are recommended to improve the operation of

economic diplomacy institutions and to increase their role in the economic development of Georgia.

This policy paper is based on the assumptions that there is significant room for improvement in the effective use of the economic diplomacy resources of Georgia, and that such improvement, if realized, would substantially contribute to the economic development of the country via export growth, attraction of FDIs, and transfer of knowledge and technologies.

The focus and scope of this policy paper is limited. It will enhance wider debates and future in-depth studies on Georgia’s economic diplomacy, international experience, and alternatives to its development, while at the same time unlocking opportunities and directions for further development of relevant institutions.

This policy paper is structured as follows: Chapter 1 reviews the notion of economic diplomacy and its various definitions, and then defines the term for the purpose of this policy paper. Chapter 2 examines Georgia’s economic diplomacy priorities as reflected in governmental strategies and programs, maps economic diplomacy institutions and analyses their functions, discusses cooperation issues among institutions, and showcases practical examples of economic diplomacy activities. Chapter 3 presents case studies of Denmark and Finland with the emphasis on institutional arrangements of economic diplomacy, strategic attitudes of governments, and prioritization of activities, markets and resources. Chapter 4 proposes recommendations to improve the functioning of Georgia’s economic diplomacy and its institutions.

1. Economic Diplomacy - Definition, Evolution and Role in Economic Development

By generalizing from various studies, Cegodajevs and Pelnens (2014) defined economic diplomacy as a government policy that includes institutional structure, allocation of resources, behavioral aspects, policy aims and ultimately deals with economic and commercial interests of the State and the private sector. Woolcock and Bayne (2013) defined economic diplomacy as “decision making and negotiation in core issues affecting international economic relations.” They excluded from their definition the use of economic leverage in the form of sanctions or inducement, as well as promotion of exports and investments, suggesting that the latter should fall under commercial diplomacy.

Okano-Heijmans (2016) stated that the concept and practice of economic diplomacy covers at least three types of diplomatic activity: trade and investment promotion (commercial diplomacy); negotiations on economic agreements (trade diplomacy); and development cooperation. This argument is supported by Van Bergeijk and Moons (2018) who defined development cooperation, international trade and investment policies as building blocks of economic diplomacy. Lee and Hocking (2010) defined commercial diplomacy, trade diplomacy, financial diplomacy and consular visa services for migration flows as four key modes of economic diplomacy, while Neves (2017) presented a broader range of issues covered by economic diplomacy, namely trade promotion, investment promotion, tourism promotion, migration and attraction of skilled staff, promotion of science and technology, development aid management, and promotion of the country's image.

It is also important to familiarize oneself with the use of the terms of commercial diplomacy and economic diplomacy. Van Bergeijk and Moons (2018) defined commercial diplomacy as diplomatic activities that support profit-making in the private sector (trade and investment promotion) and economic diplomacy as a broader discipline that, in addition to trade and investment promotion, involves activities of diplomats in international economic institutions such as the WTO and OECD. Saner and Yiu (2006) stated that

economic diplomacy deals with economic policy issues such as the work of delegations in organizations like the WTO and BIS, monitoring and reporting economic policies of foreign states and giving national governments advice on how to influence them. They defined commercial diplomacy as the promotion of inward and outward investments, trade, supplying information on investment and export opportunities, and providing relevant assistance.

Researchers also distinguish between positive and negative economic diplomacy. The positive economic diplomacy involves establishing and/or upgrading diplomatic representations, state visits, export promotion, development cooperation, signing of treaties, regional economic integration and membership in international organizations, while negative economic diplomacy concentrates on closing embassies and consulates, withdrawing ambassadors, boycotts, embargoes, financial sanctions, exits, non-adherence to rules, regulations and/or obligations, and multilateral sanctions (Van Bergeijk, Moons, 2018).

The importance of economic diplomacy is growing parallel to the intensification of international economic relations as reflected in the increasing globalization of the world economy, the development of global value chains, and the growing importance of the inter-governmental economic cooperation agenda to unlock opportunities for the private sector. We are living in an era of fierce international competition to attract MNCs, expanding markets for local products and services, and transferring, adapting and adopting knowledge and technologies to move from low-tech to medium- and high-tech production and an innovative economy. Simultaneously, international organizations aim to regulate transnational economic relations by introducing global rules of the game in trade, investments, intellectual property rights and other important areas. These attempts face obstacles because of the different size, as well as economic, political and military strengths and capacities of states and their different economic priorities and strategies.

Although some means and tools of economic diplomacy have been used since ancient times, as a concept it is a modern phenomenon. While from the 1960s to the 1980s, the concept of economic diplomacy “was hardly ever used,” there have been approximately 1000 scientific references to economic diplomacy since 2010 (Van Bergeijk, Moons, 2018). Indeed, Lee and

Hocking (2010) mentioned such a shift in the study of diplomacy towards “better understanding of the processes and practices underpinning economic diplomacy” (Lee, Hocking, 2010).

Economic diplomacy institutions are in a unique position. They match national economic priorities with opportunities on overseas markets and signal/recommend changes to national industrial policies based on their analysis and knowledge of international markets. Okano-Heijmans (2011) stated that understanding a country’s economic diplomacy “requires an understanding of evolving schemes of thought, identities and actions that move governments, domestic politi-

cians, economic and other interest groups — as well as the relative power balance among these actors. Diverging social realities of policy-making influence the extent to which actors are successful in shaping the parameters of a government’s economic diplomacy.” Van Bergeijk and Moons (2011) stated that the optimal mix of economic diplomacy instruments depend on the goals of national governments and will differ depending on the level of economic development and structure of the given economy.

The scheme below illustrates the links between the national economic policies and economic diplomacy:

SCHEME 1: The interlinkage between industrial policy and economic diplomacy



Developed by author

The increasing role of economic diplomacy and the need for it being properly reflected in relevant institutional structures has been demonstrated by the reforms of several states (US, China, India, Brazil, UK, Sweden and Germany) launched from the late 1990s to transform their diplomacy models, previously dominated by political and military issues, to a system assigning greater relevance to economic issues (Neves, 2017). Van Bergeijk and Moons (2011) stated: “attention in foreign economic policy is shifting toward economic diplomats and economic diplomacy, increasing the importance of knowledge about the (size) effects and significance of economic diplomacy.” Parallel to these developments, the respective ministries of foreign affairs lost their roles as “sole guardians” of diplomacy and had to share their “diplomatic space” with other governmental institutions (Saner, Yiu, 2006).

On a more practical level, the Governmental Strategy of Denmark on Export Promotion and Economic Diplomacy prioritizes coordination of export promotion programs, strengthening inter-ministerial efforts pursuant to Danish economic interests globally, strengthening its Ministry of Foreign Affairs’ contribution to growth and employment, optimizing its Trade Council’s efforts, boosting SMEs’ internationalization and exports, facilitating access to finance, and improving the framework for effective and business-oriented export campaigns (The Danish Government, 2014). Meanwhile, Japanese economic diplomacy is concentrated on bolstering free and open global economic systems, supporting the overseas business expansion of Japanese companies and promotion of resources diplomacy and inward investment towards Japan (Ministry of Foreign Affairs of Japan, 2017). At the same time, the activities of Dutch economic diplomacy include the removal of trade barriers, an active policy on enforcing trade and investment agreements, bilateral consultations on specific trade barriers, stronger Dutch presence in emerging and expanding markets, facilitation of access to closed markets, promotion of country branding, providing information, consultation and support for collective promotion, trouble shooting for Dutch businesses, providing export credit guarantees, supporting projects on sustainable development, and attracting FDIs (IOB, 2013).

Based on the overview presented above, we propose using the unified term “economic diplomacy” to refer to all activities in foreign economic relations, imply-

ing commercial diplomacy activities. Hence, for the purpose of this policy paper, we suggest the following definition: **Economic diplomacy reflects individual or collective efforts of governmental and non-governmental institutions directed towards building a positive international image of the country, implementation of strategic economic projects, trade, investment and tourism promotion, and transfer of knowledge and technology for the economic development of the State.**

2. Economic Diplomacy in Georgia

2.1. Strategic Priorities of the Government in Economic Diplomacy

The operational environment for Georgia’s economic diplomacy is defined by the roles and functions of relevant institutions, strategies and programs of Georgian government, and the activities of the chambers of commerce, business associations and other relevant non-governmental entities. All major economic diplomacy activities are prioritized in governmental strategies, but they are presented as separate initiatives rather than unified efforts of country’s economic diplomacy system.

At a strategic and programmatic level, economic diplomacy activities are prioritized in the Social and Economic Development Strategy – Georgia 2020 that reveals the Government’s attitude towards economic diplomacy. Among others, the vision of economic development is based on ensuring openness to international trade, expansion of free trade areas, and attractiveness for providers of FDIs. The Government prioritizes the attraction of FDIs in export-oriented industries, transport, logistics, energy, agricultural processing and storage infrastructure, as well as investments supporting the introduction of new technologies.

In the field of export promotion, the Government assigns the primary role in export expansion and diversification to the Georgian private sector. It sees the role of the State as that of a partner of export-oriented enterprises working on deepening trade relations, protecting the interests of national companies in for-

oreign markets, seeking reductions in technical barriers to trade, and providing information on export markets. With regard to export development, the priority is given to the creation of systems raising entrepreneurs' awareness about Georgia's export products and export markets, cooperation with existing and potential trade partners, and integration of the country in regional and international transport systems.

The strategy pursues the following targets in terms of export facilitation:

TABLE 1. Export Targets

Target	Baseline	2017	2020
Export of goods and services as a % of GDP	45	55	65
Share of goods exports in GDP (%)	18	22	30
Enabling Trade Index 2012	38	30	25

Source: Social-economic Development Strategy of Georgia "Georgia 2020"

Attracting FDI to ensure high economic growth, supporting companies with export potential, negotiating and extending FTAs with foreign states, intensifying marketing activities to attract more tourists to Georgia, and conducting market research to support export planning are all priorities of the **Government according to the "Basic Data and Directions Document for 2019-2022" (BDD)**. The Government's plan is to transform Georgia into a regional hub for international investments, communication, transport, logistics, energy, technology, education, tourism and finance to fulfil the internal and regional potential of the country. Doing this will support Georgia's full-scale participation in international economic processes.

The GoG is proactive in expanding the access of Georgian products to overseas markets and prioritizes the negotiation and extension of FTAs with foreign states. Currently, it is conducting negotiations with Turkey to further liberalize tariffs on agricultural products and the inclusion of trade in services in the existing FTA (BDD). Studies on the expediency of FTAs with India and USA have been conducted and a memorandum of understanding (MOU) on conducting a study into the expediency of negotiating an FTA with Israel was signed in May 2018. Active work is underway to

launch negotiations on an FTA with Gulf States as well (BDD). The GoG is committed to continuing its work to support trade development and to support Georgian entrepreneurs by eliminating technical barriers to trade. It will also initiate and conduct agreements on the protection and promotion of investments, and work proactively to strengthen Georgia's role as an energy transit hub and increase its electricity export opportunities (BDD).

With regard to export promotion, the GoG will support Georgian companies to participate in international exhibitions, and conduct market research to support export planning and targeted development. In the direction of FDI promotion, the GoG will advertise Georgia's investment potential outside the country and establish close cooperation with potential investment companies. In general, the GoG will support the active integration of Georgia in international economic relations and the full deployment of the country's diplomatic resources in this direction (BDD).

In the field of tourism, the GoG will intensify marketing activities on target and potential markets to attract more tourists to Georgia. The development of business tourism, the attraction of investments in this sector, and the creation of modern convention and exhibition centers also represent priorities in this regard. The tourism policy of the State will concentrate on transforming Georgia into a four-season tourism destination to generate additional revenues and ensuring their equal distribution during the year (BDD).

In the field of innovation and technology, the Georgian Innovation and Technology Agency (GITA) shall become a member of international angel and venture investor networks. The country will also attempt to attract subsidiaries of large international technology companies to Georgia (BDD).

The Government plans to position Georgia as a regional education center and implement targeted measures to attract foreign students. Cooperation with foreign scientific centers and universities and the implementation of joint projects, while collaboration with scientific funds located abroad will also be prioritized (BDD).

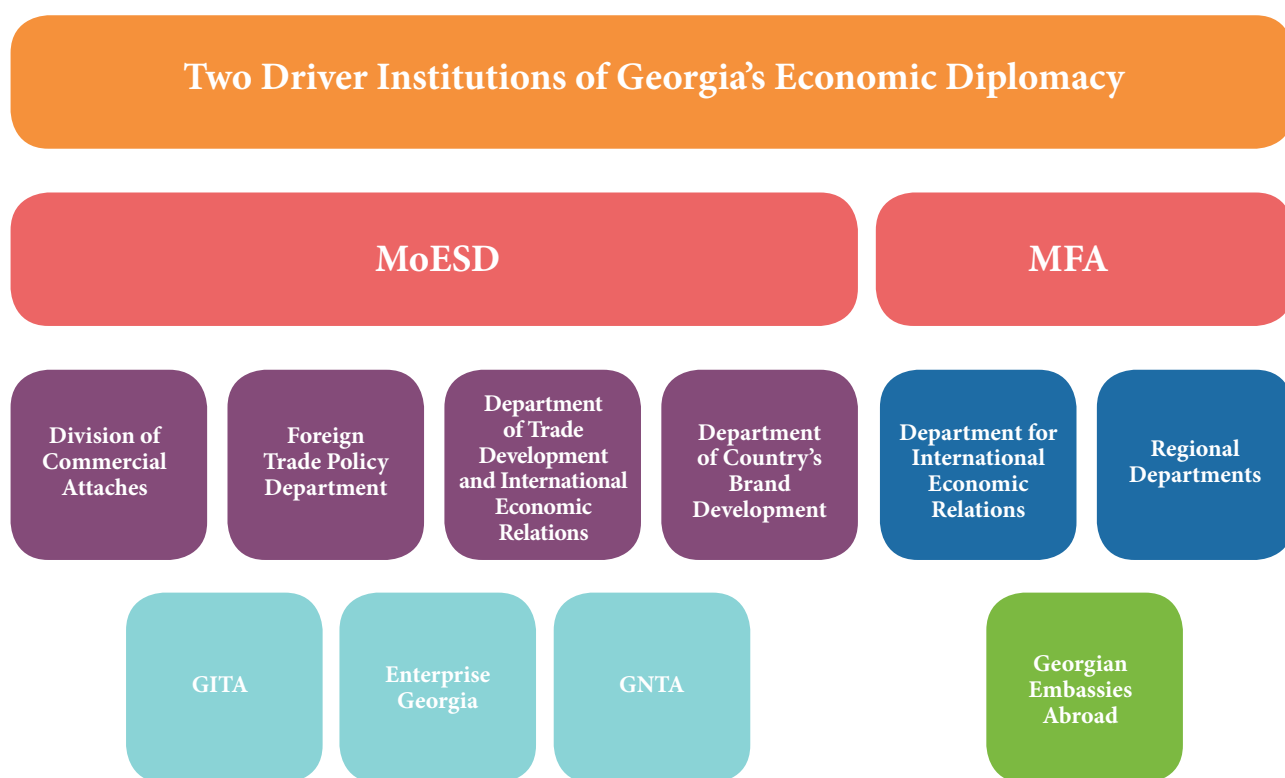
2.2. Institutional Structure of Georgia's Economic Diplomacy

The institutional structure of Georgia's economic diplomacy is characterized by the dominance of two governmental ministries: the Ministry of Economy and Sustainable Development (MoESD); and the Ministry of Foreign Affairs (MFA). It is a model in which both institutions are responsible for, and heavily inter-

vene in, economic diplomacy. Hence, the orchestrated activities of these two drivers are of decisive importance for the overall success of economic diplomacy.

Other ministries, agencies and non-state actors also implement economic diplomacy activities in accordance with their functions and responsibilities. The diversity of the involved institutions makes it essential that their activities are effectively coordinated.

SCHEME 2: Main Institutions of Georgia's Economic Diplomacy



2.2.1. The Ministry of Economy and Sustainable Development and its Subordinated Institutions

Through its various functions, structural units and subordinated agencies involved in economic diplomacy, the MoESD plays a crucial role in international economic relations. It is well equipped with all of the basic functions of economic diplomacy and is suitably placed institutionally to push for active international economic policy and initiatives in close cooperation with the MFA. The MoESD is responsible for international economic relations, trade policy, elaboration

of trade and economic agreements, development of Georgia's trade regimes, as well as cooperation with international financial and economic organizations.

The main structural units of the MoESD and their corresponding international economic activities and functions are outlined below:

- **The Foreign Trade Policy Department** works on the country's trade policy, elaboration of international trade agreements, Georgia's trade regimes, analysis of implementation of WTO-related obligations, coordination of the implementation of

the Association Agreement and the DCFTA with the EU;

- **The Department of Trade Development and International Economic Relations** works on the analysis of trade turnover, bilateral investment treaties, the study and analysis of foreign markets, providing assistance to companies in establishing contact with foreign business operators, collecting, analyzing and sorting information on Georgian exporters, optimization of the treaty basis for the deepening of cooperation with other states, and the organization of bilateral economic cooperation summits;
- **The Division of Commercial Attachés**² is responsible for growing export volumes and identifying new markets, attracting FDI and cooperating with relevant Georgian institutions, identifying new technologies abroad, cooperation with research and technology institutions abroad, marketing of tourism potential of Georgia, protection of Georgian exporters' interests in foreign markets, undertaking research of foreign markets and identifying potential investors and export markets, conducting thematic presentations, participating in conferences, briefings and forums, organizing inter-governmental communication, creating working platforms among potential partners, planning marketing events, and dealing with various organizational issues;
- **The Department of Country's Brand Development** works on building the reputation of Georgia among potential investors and partners, defining necessary channels for increasing brand visibility, and organizing forums, conferences and exhibitions.

Enterprise Georgia is a subordinated agency of the MoESD and one of the main institutions regarding the implementation of Georgia's economic diplomacy. It performs the following functions:

² According to recent statements of the Minister of Economy and Sustainable Development, the GoG might not appoint officials on the positions of Commercial Attachés and re-design the institution. According to the GoG, it may be more fruitful to strengthen the Georgian embassies by appointing special envoys/deputy ambassadors on economic issues. The final decision on this has not been announced yet. However, the Commercial Attaché Institute is mentioned in corresponding legislation and statutes and it would be useful to be better informed about its functions.

- Planning and implementing marketing activities to fulfill the export potential of Georgia;
- Implementing activities to support sectors and companies deemed to have export potential;
- Identifying export markets and implementing of measures supporting Georgian companies' entry on these markets;
- Identifying priority sectors and supporting FDI attraction in these sectors; and
- Supplying information to potential investors on investment opportunities and supporting existing investor companies.

The abovementioned functions of Enterprise Georgia are implemented by the Export Department (8 employees) and Investment Department (10 employees).

The Georgian Innovation and Technology Agency (GITA) plays a main role in supporting international technology transfer and innovation activities. It performs the following functions:

- Identifying foreign technologies and innovations, conducting analysis thereof and supporting their adoption in Georgia;
- Attracting investments and investors in the innovation and technology sector;
- Increasing the export potential of Georgian innovations and technologies;
- Popularizing national scientific and technological achievements;
- Cooperating with international organizations working in the field of innovation and technology; and
- Establishing and maintaining relations with international donor and financial organizations to attract additional grants and financial resources to support Georgia's innovation and technology sector.

These functions are executed by the Innovation and Commercialization Department (3 employees), and the Donor and International Relations Department (5 employees).

The Georgian National Tourism Administration aims to realize Georgia's tourism potential on international markets, cooperates with tourism sectors of other states, organizes visits of international tour operators, foreign journalists and bloggers to Georgia, participates in international and local fairs and mar-

kets, develops the brand of Georgia as a tourism destination, and implements marketing campaigns about Georgia as a tourism destination on foreign markets. These functions are executed by the International Relations Division (3 employees), the Brand Development Division (8 employees) and the International Tourism Division (5 employees).

2.2.2. Ministry of Foreign Affairs and Georgian Embassies

The MFA is responsible for the implementation of political and economic directions defined by the Parliament of Georgia and the GoG. Its function is to attract investment capital, as well as technical and humanitarian assistance from other states and international organizations. Importantly, the MFA is responsible for the coordination of activities of governmental institutions as part of the implementation of unified foreign relations and economic policies. The main structural unit of the MFA in executing these functions is the Department for International Economic Relations, which is staffed by 12 employees and is responsible for:

- Development of multilateral and bilateral economic relations;
- Elaboration of cooperation proposals with other states and international organizations;
- Utilization of diplomatic resources to attract foreign investments and technical assistance;
- Contributing to the realization of national, regional and international investment projects; and
- Conducting monitoring and research in the pursuit of favorable conditions for Georgian exports on foreign markets.

Regional departments of the MFA also deal with issues of economic diplomacy. The Department of Europe, Department of the Americas, Department of Middle East and Africa, and Department of Asia and the Pacific are responsible for the promotion of economic cooperation between Georgia and corresponding states.

The functions of Georgia's diplomatic representatives abroad are defined by the Law of Georgia on Diplomatic Service. According to the law, Georgian embassies are responsible for:

- Deepening political, economic, social, scientific-technical, military and cultural cooperation between Georgia and the corresponding country of residence/international organization(s);
- Spreading information about Georgia's internal and external political, economic, social, and cultural affairs and promoting the country's image;
- Defending Georgia's interests in the corresponding country of residence/international organization(s); and
- Organizing any visits of official Georgian delegations to their country of residence.

The Law of Georgia on Diplomatic Service also defines the position of the Commercial Attaché, introduced by the GoG in 2016. He/she is a part of the diplomatic representation personnel and is operationally subordinate to the head of the diplomatic representation and administratively subordinate to the Minister of Economy and Sustainable Development. This is a senior diplomatic position, representing Georgia in trade and economic relations. The Commercial Attaché is appointed by the Minister of Economy and Sustainable Development. Initially, it was planned to appoint six commercial attachés, each of whom would cover the following countries/regions: the USA; the UK; Turkey; Germany; the Gulf States; and China.

2.2.3. Other Institutions Involved in Economic Diplomacy

A significant role in economic diplomacy is played by the Ministry of Environment Protection and Agriculture of Georgia. It participates in negotiations on, and elaboration of, drafts of inter-governmental trade and economic agreements, defines priority directions in cooperation with international organizations and foreign states, elaborates proposals to support the entry of Georgian products on foreign markets, and organizes international and local events to promote Georgian products abroad. The National Wine Agency, a subordinated body of the Ministry, supports the promotion of Georgian wine exports and the diversification of markets to which Georgian wine is exported, while also cooperating with international wine organizations and relevant institutions of other states.

Given its weight in the structure of the Government, and its functions in terms of economic development,

the Ministry of Finance (MOF) also plays a vital role in economic diplomacy. It cooperates with partner international and donor organizations, coordinates and supervises investment projects financed by international organizations, deals with agreements on the avoidance of double taxation, and coordinates activities in the preparation of cooperation agreements in the tax and customs fields.

Certain economic diplomacy functions are also undertaken by the Ministry of Regional Development and Infrastructure and its subordinated institutions, as well as the Governor's Administrations of Georgian Regions and Local Municipalities. The role of the regions of Georgia in terms of economic diplomacy will increase in line with decentralization reforms and the development of the institutional capacities within each of the regions.

Economic diplomacy functions in the fields of investment and export promotion are also performed by various bodies outside the Government's institutional structure. **The Georgian Chamber of Commerce and Industry** supports investment activities, provides services to foreign corporations aiming to conduct entrepreneurial activities in Georgia, organizes fairs and meetings of business circles, protects the interests of local entrepreneurs in Georgia and abroad, and supports the export of Georgian products. Meanwhile, the **Partnership Fund** – a state-owned Investment fund - aims to attract and support private investments in energy, agriculture, manufacturing, real estate, tourism, logistics and infrastructure sectors.

2.3. Georgia's Economic Diplomacy in Practice

Dialogue and cooperation on economic diplomacy issues has been ongoing for government institutions of Georgia since re-gaining its independence in the early 1990s. It is a regular topic on the agenda of the Ambassadorial, which was first conducted in 1995. The revised format of the Ambassadorial has been practiced since 2004, and entails a weekly gathering of Georgian diplomats including political, cultural, economic and security panels. The "Ambassadorial 2017" involved the hosting of an economic diplomacy conference, where the Minister of Economy and Sustainable Development, the Minister of Finance, the

Minister of Regional Development and Infrastructure and the Minister of Agriculture all delivered speeches and presentations. The session was moderated by the Minister of Foreign Affairs. The main topics of the conference were: deepening of trade and economic relations; attraction of FDIs; enhancing exports and diversification of export markets; and integration in world markets. Participants also discussed ongoing reforms, state programs for private sector support, infrastructure and agricultural projects, energy security and Georgia's participation in energy transit³. At the "Ambassadors Conference 2018," Georgian diplomats met with the Prime Minister of Georgia and received information on the Government's economic priorities⁴. Significantly, from the officials of Anaklia Development Consortia and Anaklia City Ambassadors obtained information on the economic and investment potential of Anaklia Deep Sea Port. The Director of Enterprise Georgia also informed diplomats about the international events calendar of 2019 as well as the details of the "Film in Georgia" program⁵. Georgian diplomats also met with representatives of the local private sector and discussed opportunities in terms of investment attraction and development of economic partnerships with foreign companies⁶.

2.3.1. The Role of Georgian Embassies

The activities of the Georgian embassies are pivotal in terms of FDI attraction. Diplomats support the delivery of marketing messages to potential investors, manage relationships with them, and supply them with information necessary to make investment decisions (UNCTAD, 2011). Based on the meta-analysis of economic diplomacy effects on international flows, van Bergeijk and Moons (2011) state that embassies make an above-average contribution to trade and FDI flows, while other institutions such as consulates, and investment and export promotion agencies have a positive but below-average effect in terms of trade and

3 <http://www.mfa.gov.ge/News/ambasadoriali-2017-is-farglebshi-ekonomikuri-diplo.aspx?CatID=5>

4 <http://mfa.gov.ge/News/qartveli-diplomatebi-saqartvelos-premier-ministrs.aspx?CatID=5>

5 <http://mfa.gov.ge/News/saqartvelos-elchebi-sakhelmcifo-saagentoebis-khelim.aspx?CatID=5>

6 <http://mfa.gov.ge/News/„chveni-diplomatebis-ert-erti-mtavarimizania-saq.aspx?CatID=5>

investment stimulation⁷. Van Bergeijk et al. (2011) also state that the impact of embassies on trade is larger than that of consulates, while honorary consulates, on average, do not add any value to trade.

Ambassadors have a crucial role in establishing initial contacts with the chief executive officers (CEOs) of potential investor companies and stimulating their initial interest in Georgia. As one interviewee mentioned, ambassadors are the main “door openers” for potential investor companies. According to the interviewees, Georgian embassies play a leading role in their countries of residence when it comes to investment facilitation, tourism promotion, export support and other areas of economic diplomacy.

According to some interviewees, Georgian embassies deal with the basic inter-governmental agreements concerning investments, double taxation, customs cooperation, and free trade. They must be highly active in tourism promotion, investment attraction, and export promotion, while they are also responsible for monitoring any cases of products falsely claiming Georgian origin, assisting Georgian businesses in dealing with customs formalities, and verifying the credibility of potential business partners of Georgian companies and potential foreign investors. The embassies assist in ensuring the attendance of Georgian companies at international fairs, and provide assistance in verifying the credibility of particular buyers. They actively assist Georgia’s private sector support institutions in logistical issues, take care of visa formalities, and spread information about important stakeholders. Georgian embassies also conduct negotiations with flagship airline companies in their countries of residence to motivate them to add locations in Georgia to their lists of offered destinations.

From 2016 onwards, each Georgian embassy has been assigned an economic adviser. Previously, officials responsible for economic affairs were assigned numerous other functions and economic responsibilities were secondary in most cases, as diplomatic and consular responsibilities took priority. One of the interviewees also mentioned that most Georgian embassies were largely dealing with bilateral economic coopera-

tion (e.g. cooperating with economic policy-making institutions of their countries of residence) and there was a lack of attention being paid to working with the private sector (e.g. potential investors).

The 2017-2018 action plan for economic advisers of Georgian embassies defined the following 10 priorities:

- Delivering presentations, increasing visibility, spreading information and attracting investment;
- Supporting connections with trade chambers and business associations;
- Organizing of visits of business delegations;
- Export promotion;
- Protecting intellectual property;
- Regional cooperation and establishing twin city arrangements;
- Cooperation with international organizations and development agencies;
- Supporting the import of innovations and modern technologies to Georgia;
- Supporting Georgian start-ups; and
- Supporting participation of Georgian companies at international fairs.

The MFA attempts to train all relevant diplomats on economic issues. There are cases when diplomats without an economics background deal competently with economic issues after receiving trainings and through self-educating themselves. The MFA considers idea to have “mobile positions” allowing for the transfer of available personnel from one embassy to another based on the potential of economic cooperation activities in the relevant country (or countries) of residence.

2.3.2. Cooperation between Economic Diplomacy Institutions

According to majority of interviewees, cooperation between the two main institutions of Georgia’s economic diplomacy (the MFA and the MoESD) is at a good working level. However, coordination between them and especially their coordination and communication with other institutions that have a role in economic diplomacy, should be substantially improved.

The MFA and the MoESD intensively cooperate in the implementation of international econom-

⁷ It should be noted that this study has not analyzed the effect of the combined use of different economic diplomacy instruments. This is very significant given the complexity of the topic and the diversity of institutions involved.

ic cooperation activities. According to the majority of interviewees, this cooperation is effective, and there are no serious problems to be addressed at this stage. To avoid delays in certain cases, the MoESD and its agencies may directly contact the embassies in pursuit of a solution to urgent issues and only afterwards would they need to inform the headquarters of the MFA accordingly. This indicates a good level of cooperation and trust between these two main driver institutions of economic diplomacy. The MFA and the MoESD also actively cooperate with other central institutions, and regional and local authorities⁸.

In 2013, the Georgian National Investment Agency⁹ (GNIA) elaborated a list of 400 target/potential investor MNCs and forwarded it to the MFA/Georgian embassies. The aim of doing so was to encourage the arranging of meetings with relevant officials and to supply them with information on investment opportunities in Georgia. The GNIA's rationale was that it would be more effective to establish initial interactions via Georgian embassies that have valuable contacts in their countries of residence and could approach relevant business associations and chambers. In terms of export promotion, the resources of Georgian embassies are actively deployed during international trade events in their countries of residence. They provide administrative and logistical support, deal with visa formalities, and spread information to important stakeholders in the Georgian trade mission.

In its attempts to establish economic cooperation between Georgian regions and regions of other states, the MFA pursues active cooperation with the Ministry of Infrastructure and Regional Development, Governors of the Regions and their Administrations. This recent initiative resulted in the establishment of cooperation between South African and Georgian wine-makers including exchanges of experience and the launching of joint projects (Interview, 2018).

8 Ministry of Environment and Agriculture, National Wine Agency, Ministry of Labor and Health Care, Ministry of Regional Development and Infrastructure, Ministry of Education, Science, Culture and Sports, Governor's Administrations and Local Municipalities, Ministry of Interior, President's Administration, Administration of the Prime Minister, Partnership Fund, Sakpatenti, Mountainous Resorts Agency.

9 In 2016 it merged with Enterprise Georgia

Sometimes, there are communication problems between governmental institutions when attempting to solve certain issues. Ineffective bureaucracy and delays in arriving at solutions to various enquiries that are pertinent to investment decisions, may hamper the attraction of new investors. If, for instance, specialists of an investor company are refused an entry visa to Georgia, then this clearly creates difficulties for the investor and hinders its cooperation with state institutions. The issuance of residence permits also represents a problem in certain cases which may substantially damage relations with foreign investors, limit their investment activities and demotivate them from becoming engaged in investment promotion campaigns that would be of benefit to Georgia (Interview, 2018).

Interviewees involved in practical work stated that the current institutional structure of Georgia's economic diplomacy is well-established, adequate for Georgia's reality, responds to current priorities, and there is no need for substantial changes or reforms. They suggested that some improvements could be made in stakeholder institutions, in strengthening coordination, communication, and ensuring proactive attitudes in Georgian embassies, as well as in capacity building, simplification of bureaucratic procedures, and ensuring the availability of budgetary resources.

2.3.3. Some Practical Cases

The professionalism, proactivity and dedication of Georgian diplomats plays a decisive role in the success of economic diplomacy. Some cases demonstrate how proactivity and dedication in particular leads to success that supports Georgia's modernization and economic development.

The case of "Nenskra Hydro" is exemplary in this regard, because here the proactivity of a Georgian embassy and ambassador resulted in an investment decision that was initially rejected. The Embassy of Georgia in Seoul and its Ambassador were actively involved in the attraction of a substantial investment in Georgia's energy sector, namely the construction of the "Nenskra" hydropower plant. Starting from 2012, the Embassy, in cooperation with the Partnership Fund, began active communication with a potential Korean investor "K-Water", but the latter eventually decided

to pursue other investment opportunities in Africa. The proactive attitude of the Georgian Ambassador to South Korea, who persuaded the Korean company to re-evaluate Georgia's investment attractiveness and to re-think entering Georgia's energy market, helped to re-engage this potential investor. A series of intensive negotiations resulted in the initiation of an investment project in 2015 with an Italian company, "Salini Impregilo," winning the tender for the construction of the hydropower plant. The estimated total cost of the project is USD 1 billion, and its successful implementation will significantly support the attraction of additional FDI from South Korea.

The case of "Elbit Systems – Cyclone" (hereinafter, Elbit) is also exemplary here. In this case, the Embassy of Georgia in the State of Israel had a long-lasting cooperation with a company that was considering two overseas investment opportunities: one in Georgia and one in India. In making its decision, the main factor being considered by the Israeli company was the cost of the labor force. At the initial stage, the Georgian Embassy in Israel engaged in intensive communication with the owners and management of Elbit. Ultimately, all relevant institutions of Georgia were involved and their effective work brought success as Elbit's final decision was made in favor of Georgia. In 2018, Elbit, with co-investment from the Partnership Fund, opened a manufacturing plant in Tbilisi. The establishment of friendly and trustful relations with potential investors is one of the main tasks of Georgian embassies as this can have a significant bearing on FDI attraction.

Similarly, the proactivity of Georgia's Ambassador to Saudi Arabia has been reflected in numerous meetings being held with potential investors and the showcasing of the attractive investment and business environment in Georgia. This has increased the interest of potential Saudi Arabian investors towards Georgia. As for 2017, total FDIs from Saudi Arabia to Georgia exceeded USD 100 million. The number of tourists coming to Georgia from Saudi Arabia is also increasing rapidly, with 60,000 Saudi Arabian visitors in 2017 (representing a 100% increase on the previous year)¹⁰.

There have also been some successful cases in terms of export promotion. To illustrate this point, the diplomat in charge of economic affairs in Georgia's Embassy to Japan

was regularly collecting and sending information back to Georgia about Japanese demand for various products. The first concerned the Japanese demand for licorice. The MoESD explored the potential for the production of licorice in Georgia, generated interest from a production company and exported products to Japan, and then to other countries subsequently. The second example here concerned the Embassy recommending that a person interested in purchasing rosehip juice visited Georgia. The Embassy also communicated the full details of the product he was interested in buying/importing, provided financial assistance to the selected company, and assisted in exporting a pilot product to Japan.

Other examples include Georgia's Ambassador to Switzerland supporting the export of Georgian wine to his country of residence, while Swiss regions have also expressed interest in cooperating on tourism and conducted visits to Racha and Svaneti regions accordingly. Meanwhile, Georgia's Ambassador to Brazil has promoted Georgian wine and generated initial interest resulting in the first 5000 bottles of Georgian wine to be exported to Brazil. At the same time, Georgia's Ambassador to France has supported the cooperation of a French region with Svaneti, and 25 Georgians will now learn about mountainous tourism from their French partners.

2.3.4. Commercial Attaché's Institute

Interviewees shared their views on the creation and operation of the Commercial Attaché's institute in the system of Georgia's economic diplomacy. They offered both positive and negative opinions and proposed certain solutions.

According to the respondents, commercial attachés will face the following challenges:

- Having to operate under dual management, e.g. under the subordination of the MoESD and the Embassy. This will create bureaucratic and operational problems. It may also cause duplication of functions among diplomats responsible for economic issues.
- Commercial attachés shall actively cooperate with the following MoESD agencies: Enterprise Georgia, GITA and GNTA. The process of information flows,

¹⁰ <http://www.mfa.gov.ge/News/%E2%80%8Bsaudis-arabets-samefo-tbilisshi-saelchos-gakhsni.aspx?CatID=5&lang=en-US>

distribution of tasks, coordination of activities and subordination is all unclear and this may complicate processes currently established between these agencies, the MFA and Georgian embassies.

- Commercial Attachés will have difficulties when it comes to establishing contact with decision-makers of MNCs. They will also face problems in arranging meetings with CEOs. High-ranking corporate officials making strategic decisions will always prefer to meet ambassadors. Normally, corporate officials who are lower in the hierarchy, who are not decision-makers, will meet with them and then have to pass messages on to the corporate decision-makers. It is difficult to be certain about how accurately and quickly they will deliver such messages. An ambassador has prime status in his or her country of residence, while the diplomatic status of a commercial attaché is lower and not yet clarified.
- If officials from central institutions do not attend international events or platforms that are important for Georgia, then the Georgian ambassadors in the respective states are normally present. Commercial attachés will not be invited by organizers of such events and they might not be suitably placed to deliver necessary speeches or presentations.
- The effectiveness of the Commercial Attaché's institute will depend on the available budget and resources. If they are able to procure research and consultancy services, organize events and generate leads, then they may be effective. Sometimes, hiring local consultants in countries of residence is more productive because of their superior knowledge of the local context, business and commercial culture as well as current trends. Hence, the availability of financial resources when it comes to hiring local consultants would also be important.

Due to the abovementioned factors and an international perception that commercial attachés are mostly dealing with the promotion of export products from their home countries, it is to be expected that, at the initial stage, commercial attachés might be more effective in export promotion activities than they are in investment attraction. According to some interviewees, it would be worthwhile to strengthen Georgian embassies and to equip them with additional resour-

es and capacities to perform economic diplomacy functions, rather than creating a new institution in the form of the Commercial Attaché. New staff with economic backgrounds might be added to the existing institutional structure where necessary. The MFA considers the adding of the Deputy Ambassador/Special Economic Envoy position to embassies that have increasing workload in economic issues. This position will consolidate the network of honorable consuls, bilateral chambers of commerce, economic advisers of the embassies and diaspora representatives towards the achievement of the economic priorities of Georgia.

Thus, we should not expect a breakthrough in economic diplomacy by adding commercial attachés to the existing bureaucratic model. Strengthening Georgian embassies seems a wise solution given the fact that existing institutional and personnel resources have the potential to improve economic diplomacy operations and achieve better results in terms of FDI attraction and export promotion.

2.4. Concluding Remarks

Rana (2007) proposes grouping developing countries according to their respective levels of economic diplomacy development, based on the following characteristics:

TABLE 3: Grouping of Developing Countries by the level of Economic Diplomacy Development

Group of Developing Countries	Characteristics
Advanced Group	They have mastered interactions with the external world to reap benefits from international economic opportunities; they also regard globalization in benign fashion and are active participants in an interdependent world.
Middle-level Group	Struggling for the right mix of structure, policy and method to take proactive advantage of the policy environment.
Bottom Group	Severe inadequacy in terms of resources; having internal conflict or poor governance; and depending on foreign aid

Source: Rana (2007)

Based on the prioritization of economic diplomacy activities, institutional structure, existing practices and methods, availability of resources and capacities of economic diplomats, we place Georgia in the transition phase between the middle-level and advanced groups. The country has: (1) a structure that still needs some incremental institutional innovations; (2) detailed functions for economic diplomacy officials; and (3) a policy that needs to be more focused. Still, comprehensive efforts have to be made if Georgia is to be accurately characterized as a country that has “mastered interactions” with the rest of the world while it is yet to fully reap the benefits of its international economic opportunities.

3. Case Studies

Georgia has to study, transfer and adapt the experiences of countries that have successfully pursued economic diplomacy for a long period and have accumulated considerable knowledge in this area. The selection criteria when picking countries for case studies include having a long tradition in pursuing economic diplomacy, strategic importance being attributed to this area by the country’s government, having a united government approach in implementing economic diplomacy priorities, and track record of success in supporting private sector activities.

The Danish institutional structure is unified whereby Ministry of Foreign Affairs is the main actor in economic diplomacy, while the Finnish model is closer to that of Georgia in which the Ministries of Economy and Foreign Affairs are driving forces. Georgia should emulate Denmark and Finland: this would entail setting medium-term economic diplomacy strategies, prioritization of target markets, and the elaboration of specific relevant strategies, coordination efforts akin to those of the “Team Finland” and other efforts towards the consolidation of economic diplomacy activities.

3.1. Danish Model of Economic Diplomacy

Denmark is one of the most developed members of the EU with high income per capita and an innovation-driven economy. Despite international recognition of the capacities of Danish companies and their competitiveness in agriculture, clean technologies, electronics and other sectors of the economy, the

Danish government prioritizes economic diplomacy and gives increasing strategic importance to its development and effective functioning.

The history of economic diplomacy in Denmark dates back to the 19th century. In 1888, the first Danish envoy was seconded to the Danish Embassy in UK to promote butter exports from his home country (Nielsen, 2016)¹¹.

The institutional structure of Danish economic diplomacy is dominated by its Ministry of Foreign Affairs (Danish MFA). It has its headquarters in Copenhagen and a global network of embassies, consulates-general and trade commissions. By the end of 2016, Denmark had 76 embassies, 34 other missions, 15 consulates-general, five trade offices and seven Innovation centers (Danish MFA, 2017). Based on its institutional structure, functions, responsibilities and strategic priorities, the Danish MFA pursues active economic diplomacy. Its priority is to assist Danish companies to gain footholds in new emerging economies, and to ensure excellent conditions in traditional export markets (MFA, 2014).

A vital economic diplomacy institution for Denmark is the Trade Council of the Danish MFA, which assists Danish and international enterprises with export and investment promotion services. Its export assistance includes guidance, internationalization and innovation solutions for Danish enterprises. Investment attraction work comprises searching for foreign companies looking to set up or expand their business, and research activities implemented by Invest in Denmark which operates within the Trade Council.

To illustrate the extent of the practical work of the Trade Council abroad, we review its structure and activities in the Embassy of Denmark in Canada. The Trade Council North America is staffed by the Consular General & Head of Trade Mission, Consular and Trade Officer, Vice Consul, Senior Advisor (Invest in Denmark), two Senior Advisors (Green Build and Urban Solutions), Senior Advisor (Healthcare and Life Sciences), Trade Adviser (Energy and Environment-Wind Power), Trade Adviser (ICT) and two interns. Despite an already large market share in Canada being enjoyed by Danish exports, unexploited potential still exists especially in areas where the Canadian market and Danish competencies match. Accordingly, the Trade Council has prioritized the following sectors for Danish exporters: healthcare and life sciences; ICT; energy & en-

11 <https://www.linkedin.com/pulse/power-economic-diplomacy-jakob-skaarup-nielsen>

vironment; food & agriculture; Arctic business opportunities; and green build & urban solutions. The Trade Council monitors these sectors and alerts the Danish private sector of potential opportunities. For example, for companies interested in exporting food and agriculture products, the Trade Council provides information on: Canada's food market; the number of retail stores and foodservice establishments; the market for agroindustry and food technology; and market access. The Trade Advisors of the Trade Council are prepared to provide detailed information and consultation to interested Danish companies (website of the Danish MFA).

Its economic diplomacy activities are reflected in the reports of the Danish MFA.

TABLE 4: Danish MFA's Involvement in Selected Areas of Economic Diplomacy

	Investment Projects (Invest in Denmark)	Counselling
2016	68 investment projects from of which 28 were high-quality projects	
2015	1700 jobs were created and retained resulting from investment projects	3356 Danish enterprises were counselled by the MFA; 81% of firms reported a high level of satisfaction with the received counselling
2014	47 investment projects contributed to the creation and retention of 1250 jobs in the country	
2013	50 investment projects contributed to the creation and retention of 1200 jobs	
2012	57 investment projects contributed to the creation and retention of 1193 jobs in the country	MFA/Trade Council provided advice to 5700 enterprises
2011	Contributed to attracting 47 foreign companies resulting in the creation and retention of 1296 jobs	MFA provided advice to 5600 enterprises
2010		MFA provided advice to almost 5300 enterprises

Source: Annual Reports of the Danish MFA

In 2012, the Trade Council of the MFA deepened its cooperation with Danish regions in the field of investment and export promotion. These efforts resulted in the placement of nine investment promotion project leaders and three export promotion officers in the Danish regions (Danish MFA, 2012). In the field of investment attraction, coordination and cooperation was strengthened by the creation of the **Network for Investment Promotion**, comprising ministries, local governments, Danish regions and agencies operating under the MFA. The goal of the network is to enhance dialogue between the local, regional and national authorities and to strengthen Danish framework conditions (Danish MFA, 2013).

In 2012, the Government of Denmark adopted "Denmark's Growth Market Strategy" to intensify trade and economic relations with the BRIC countries and other growth economies¹². The strategic attitude towards growth markets was created according to the internal political and economic priorities of Denmark to ensure high economic growth and employment, both of which are prerequisites of Danish welfare society in the future (Danish Government, 2012). These internal priorities required the maximization of economic benefits from export, investment, knowledge and technology transfer activities with growth markets. There was significant room for improvement in trade relations at the time: in 2011, Danish commodity exports to the EU and the USA amounted to DKK 426 billion, while its commodity exports to BRIC and other growth markets accounted for only DKK 57.5 billion. The importance of international investors from growth markets was also taken into account (Danish Government, 2012).

Thus, the aims of the Danish government with regard to growth markets for 2012-2016, were as follows:

- Increase commodity exports by more than 50% by 2016
- Maintain Danish exports' relative market share in growth markets compared to the leading EU member states
- Maintain and solidify leading position within service exports to the growth market
- Ensure that 2011-2016 FDI inflow from growth markets doubled the inflow for the 2005-2010 period (Danish Government, 2012).

12 Mexico, South Africa, Vietnam, Indonesia, South Korea and Turkey were initially defined as other growth markets

The priorities and actions of the Danish government are presented in annex 2.

The strategic approach to economic diplomacy issues was reflected in the “Government Strategy on Export Promotion and Economic Diplomacy,” adopted in May 2014. It comprises the following nine measures and 40 underlying initiatives (full information on the initiatives is presented in annex 1):

- Streamlining and coordination of export promotion programs and easier navigation for companies
- Strengthening inter-ministerial efforts relating to Danish economic interests globally
- Strengthening its foreign service’s contribution to growth and employment

- Optimizing Trade Council efforts in cooperation with the Danish business community
- Establishing a global presence focusing on growth and volume markets
- Securing better cohesion between development aid and commercial efforts
- Facilitating access to financing for SMEs
- Boosting SMEs’ internationalization and exports
- Improving the framework for effective export campaigns

Intriguingly, Denmark now plans to improve its economic diplomacy further still. Its **Government Strategy for Economic Diplomacy – 2018-2020** includes some interesting aspects and directions, presented in the table below:

TABLE 6: Strategic Objectives and Initiatives of Economic Diplomacy Strategy

Strategic Objective	Initiatives
Ensuring Favorable International Framework Conditions	More trade agreements and fewer barriers
	Safeguarding Danish trade interests in relation to Brexit
	Strengthening private sector awareness of trade agreements
	Increasing priority of political-commercial advice and guidance
	Closer cooperation with the EU to promote Danish interests globally
	Expanding and modernizing network of double taxation agreements
	Promoting favorable framework conditions for local and international businesses
Increased Export and Market Share for the Danish Business Sector	Contribution of Danish companies in fulfilling global goals
	Placement of new growth advisers in high-income countries for Danish businesses
	Targeted focus on strategic high-value projects
	Increased coordination of the Government’s travel activity
	Promotion of Danish strongholds through multinational partnerships and cooperation
	Increasing opportunities for financing Danish investments in high-growth and high-volume markets
	Increasing inclusion of business interests in prioritizing internationalization efforts
Development of More High-growth Enterprises through Internationalization	Strengthened focus on internationalization of SMEs with growth potential
	New elite program for “born globals”
	Increase the volume of Danish products in international e-commerce marketplaces
	Easing access to knowledge of internationalization on digital platforms
Attraction of More FDI to Denmark	Enhancing focus on attracting particularly knowledge and technology-intensive investments in Denmark
	Making Denmark a hub of data centers and downstream industry in Northern Europe
	Stronger focus on attracting investments within digital growth areas
	Special focus on health and life sciences
Strengthen Denmark’s Leading Position in the Fields of Innovation and Digital Transition	Facilitating greater access to knowledge about new technologies and business models
	Strengthening Danish companies’ market access through innovation
	Increasing access to international risk capital
	Promoting Danish innovative solutions through a new innovation fund

Source: Danish MFA, 2018

3.2. Team Finland – Strategic All-ance for the Benefit of the Finnish Private Sector

The creation of the Team Finland network in 2012 was the result of increasing importance being placed by Finnish Government on external economic relations, the international success of Finnish companies, and the need of the public sector assistance. The Finnish state support system for internationalization of companies and attraction of FDIs was fragmented and the services being delivered were not satisfactory. The need for closer cooperation between all actors involved was recognized. To solve the problem, the Team Finland network was created and a corresponding action plan was elaborated and approved by the Government, with a steering group also appointed.

Team Finland is a network of public institutions providing internationalization services to the Finnish private sector. It consists of the Ministry of Economic Affairs and Employment, the Ministry of Foreign Affairs, Business Finland, Finnish Industry Investment, the Finnish Patent Office, Finnvera¹³, Centres for Economic Development, Transport and Environment, the Finnish-Russian and Finnish-Sweden Chambers of Commerce, Finnfund¹⁴, the Technical Research Center of Finland, Finnpartnership¹⁵, and Finnish Cultural and Academic Institutes. The network's main task is to help Finnish companies in their internationalization processes via providing the following range of services: collecting and analyzing information on the world's markets; advising and training; supplying a wide range of financial services; assisting in finding business partners; assisting in establishing contact with officials of other states; and offering premises of Finnish diplomatic representations abroad for representative functions.

The steering group of Team Finland consists of the Prime Minister (Chairman), the Chairman of the Board of Nokia (Vice-Chairman), other top managers of four Finnish companies, the State Secretary of the Prime Minister's Office, the Secretary of State of the Ministry of

13 Official Export Credit Agency of Finland owned by the State of Finland

14 Finnfund provides risk capital, long-term investment loans and expertise to businesses operating in developing countries

15 Finnpartnership promotes business activities and partnership for generating positive development impact in target countries

Foreign Affairs, the Permanent Secretary of the Ministry of Employment and Economy, and the Permanent Secretary of the Ministry of Education and Culture.

Finnish companies can receive the services of Team Finland on a single spot and via joint service number for telephone calls. The website of the network was also updated and this presents the services offered by Team Finland to companies, as well as important news, activities and reports. Team Finland provides the following services:

- **Market Opportunities** – information about business opportunities and risks in other states
- **Advice and Training** – guidance on the initial steps of internationalization and running a company
- **Financing** – providing financial resources for internationalization
- **Networks** – locating cooperation partners or connections abroad
- **Official Contacts** – assistance in gaining influence in target markets
- **Visibility** – export promotion visits and business events

For export promotion activities, destination countries are chosen based on their demand for Finnish know-how. For 2015, the priorities were exports in clean tech, medical care and digital expertise sectors. Corresponding visits to target countries were then planned and conducted¹⁶.

Besides these services, Team Finland actively works on the attraction of FDIs. These activities are mainly undertaken by Invest in Finland in strong partnership with regional development companies and Team Finland. The emphasis of its FDI attraction work is on the sectors where Finland has relevant expertise and resources to offer, namely ICT (data centers and R&D centers), the health sector, clean tech, and bio economy (renewable en-

16 In 2015 visits supported by the Team Finland network were organized to Iran (Key themes: clean tech, bio economy, ICT and digitalization, life sciences, health care and food), UAE and Saudi Arabia (clean tech, education and learning, life sciences, health care and food), Kazakhstan (education and learning, clean tech), Bahrain (life sciences, health care and food, education and learning), USA and Mexico (clean tech, ICT and digitalization, education and learning), Norway (ICT and digitalization, Arctic expertise), Myanmar and Philippines (cleantech, ICT and digitalization), Turkey (Bio economy, ICT and digitalization), China (life sciences, health care and food, ICT and digitalization), UAE (life sciences, health care and food, education and learning), China (clean tech, ICT and digitalization, creative industries and design).

ergy and smart grids). As for potential FDI source countries/regions, Invest in Finland prioritizes Scandinavia, the USA, China, Russia, and German-speaking Europe. Additional efforts are to be directed towards countries/regions where Team Finland is already present, namely England, Japan, the Middle East, South Korea, and India.

Team Finland also supplies services in the Finnish regions. It supports the capacity building of regions, serving as a first point of contact for companies to provide access to Team Finland's services. The network also prioritized the creation of the joint customer relationship management system. In addition, it was necessary to make the use of financial instruments easier for the procurement of private consulting services for private sector companies.

Team Finland also aims to integrate services that support lowering of trade barriers and assisting Finnish companies' entry to foreign markets.

Team Finland is actively working on country branding. Finland stands out for its cleanliness (clean tech, quality of life, well-functioning society, nature), design (products, services) and education and competence. Greater emphasis will also be placed on advertising Finland as a democratic, functioning, competence-based welfare state that is an EU Member State.

The network has defined the following sectoral priorities: clean tech, bio economy, ICT and digitalization, life sciences, health care and foods, Arctic competence, creative industries and design, education and learning¹⁷.

17 Clean tech (renewable energy, intelligent systems and services in urban environments, Industrial water treatment and purification, sustainable mineral extraction industry, intelligent energy systems, green ICT, waste management and waste-to-energy, air quality), bio economy (chemical forest industry, mechanical forest industry and wood construction, biorefining, including bioenergy, biomaterials, biochemicals and biofuels, bio economy equipment, bio economy services, including ecosystem services) ICT and digitalization (games and gamification, cyber security, mobile/wireless solutions and enabling technologies, online trading, The Internet of Things, including the industrial internet and the reinvention of traditional industry, intelligent transport), life sciences, health care and foods (medical technology, including ICT for health and diagnostics, health care and care service concepts, healthy food, functional food, high-quality food and raw materials, food technology and food safety), Arctic competence (marine industry and logistics, building, infrastructure and ICT, energy and environmental technology, mining and minerals), creative industries and design (industrial design, creative digital concepts, design brands and fashion, architecture), education and learning (digital learning solutions, serious games; vocational education, teacher training, consultation related to educational systems)

Team Finland's allocation of resources to priority markets is based on pre-defined criteria. The placement of the so-called "first level teams" will depend on: (1) the financial significance of the target country, measured by volume of exports and investments; (2) market potential of the target country, measured by economic outlook and trade outlook with Finland; (3) demand for services, evaluated through customer surveys; (4) special added value of the target country's government as a service provider; and (5) limitations arising from the location of the current Team Finland network offices. Based on the abovementioned criteria, the following countries were included in the 1st category: Russia, China, the USA, India, Brazil, Germany, Turkey and Sweden. In addition, a need for strong individual teams was expressed for Japan, South Korea, Africa and Southeast Asia. Generally, the focus is on developing markets and neighboring markets. The assessment of priority countries will be performed on an annual basis.

Each member of the network has its own tasks and goals. An important member of the network, the Ministry of Foreign Affairs of Finland (hereinafter, the Finnish MFA), deals with the removal of trade barriers, attraction of FDIs to Finland, and influencing Finland's global operating environment. The Finnish MFA is in charge of identifying changes in the global operating environment that affect the international operations of Finnish enterprises. It makes efforts to ensure the removal of trade barriers and to support operational environment promoting competition.

With regard to trade barriers, the Finnish MFA performs detailed analysis of the problem, and addresses it bilaterally, with the help of the European Commission or via multilateral cooperation. Different means may also be applied simultaneously. Bilateral solutions may be based on EU agreements concluded with states and problem-solving mechanisms defined by them. They may also be addressed via bilateral agreements with non-EU countries including cooperation mechanisms for addressing barriers to trade. Multilateral cooperation for removal of trade barriers also occurs in the WTO.

For the attraction of FDIs the Finnish MFA markets Finland in close cooperation with Invest in Finland. The aim of both institutions is to select target countries for the attraction of FDIs that match the priority sectors of the Finnish economy.

It is useful here to examine Team Finland's activities in China, which encompasses: the Embassy of Finland in China; the Consulate-General of Finland in Shanghai; the Consulate-General of Finland in Hong Kong; Business Finland in China; FinChi Innovation Center; Finnish Business Councils in Beijing, Shanghai and Guangdong; and the Finnish Chamber of Commerce in Hong Kong. Notably, the Finnish Ambassador to China is Chairman of Team Finland.

The activities of Team Finland in China are concentrated on supporting close cooperation with Chinese partners in offering world-class technologies, research and development, innovations and know-how developed in Finland. The expertise of Finnish companies in these fields generates advantages for them on Chinese markets. Team Finland supports Finnish companies in exploring and developing new business opportunities, promoting Finland and its companies through extensive contact networks. The network offers a whole range of services available through institutions forming Team Finland in China.

4. Recommendations

Developing a Vision Document for Georgia's Economic Diplomacy

The MoESD and the MFA shall develop a vision document for Georgia's economic diplomacy. This would represent an initial step toward the consolidation of economic diplomacy efforts of engaged institutions, ensuring whole of government approach in planning and implementing respective activities. The document should define economic diplomacy, its functions, priorities, intervention fields, strategic markets for FDI attraction and export promotion, institutional development and capacity building measures. The institutions engaged in economic diplomacy should have a common understanding of the meaning and priorities of economic diplomacy and the areas it deals with. The current state of affairs in the field should also be evaluated. This initial document, elaborated with the participation of all stakeholders, may be transformed into a comprehensive strategy for Georgia's economic diplomacy. Danish experience in designing, implementing and evaluating economic diplomacy strategies could be valuable here and may be taken into account.

Ensure Proactivity of Georgian Embassies

An equal level of economic diplomacy activities should be carried out by all relevant Georgian embassies. It is clear that some embassies might be more dynamic than others because of the country of residence having more bilateral potential for economic cooperation. Nevertheless, all embassies should be equally active in economic diplomacy, depending on the priorities defined in close coordination with central institutions. The case of Georgia's cooperation with South Africa demonstrated that targeted and proactive measures may yield positive results.

It should also be explained to diplomats that only few investment leads may materialize in real investments. Accordingly, communication with potential investors that would not invest in Georgia or even visit the country should not be seen as a certain failure. Also, it shall be clear for them, that cooperation with potential investors initiated by them may result in investment in several years.

Success stories of Georgian embassies in FDI attraction and export promotion should be communicated in a structured way to all stakeholders involved in the country's economic diplomacy and serve as a learning exercise for existing and future economic diplomats.

Creation of Economic Diplomacy Council

The complexity of issues related to economic diplomacy and the involvement of different institutions requires strategic coordination and the involvement of high-level governmental officials. A Council of Economic Diplomacy should be created and chaired by the Prime Minister. The Ministers of Economy and Sustainable Development, and Foreign Affairs, shall serve as Deputy Chairs. The Secretariat of the Council should be formed from the staff of the two leading ministries. The members of the council shall be ministers and deputy ministers of the involved institutions, the President of the GCCI, the Head of the Partnership Fund, NGOs active in economic diplomacy, representatives of Georgian companies, and foreign investors. Meetings of the Council shall be convened at least twice a year; one of its meetings shall coincide with the Ambassadorial of the MFA.

The Council, once established, should discuss priorities of economic diplomacy, strategic directions, issues of inter-ministerial cooperation and coordination, plans for high-level governmental visits, and participation in international forums and fairs. A network similar to the Finnish one should be created and institutionalized under the Council.

The functions and composition of Team Finland's steering group may be used as a template for a new Georgian equivalent.

Description of Economic Diplomacy Business Processes

At the initial stage, the business processes between the MoESD, its agencies and the MFA and Georgian embassies related to economic diplomacy functions shall be described and visualized. Thereafter, recommendations for improvements should be issued.

Capacity Building of Economic Diplomats

The capacity building of economic diplomats shall be a top priority. It is widely recognized that diplomats who specialize in economic and commercial diplomacy serve more effectively when it comes to protecting national interests in economic and business spheres (Saner, Yiu, 2006). The Levan Mikeladze Diplomatic Training and Research Institute¹⁸ has a comprehensive plan for advancing the economic diplomacy discipline in its curriculum. Based on international experience, the institute shall offer a tailor-made course for acting and future economic diplomats covering economic policy, international economic relations, functions of international organizations active in the area of economic development, international trade, FDI and export support policies and promotion, communication skills, and presentation skills. The course shall be supplemented by particular trainings on the specificities of the economic diplomat's country of residence.

18 The Institute operates under the Ministry of Foreign Affairs and its aim is to promote the continuous professional development of MFA staff and those forming the diplomatic reserve, taking into consideration Georgian foreign policy priorities, existing needs and trends.

Prioritization of Economic Diplomacy Activities

Countries rely on their comparative advantages, the export readiness of particular sectors, and the strength of their business environment to attract FDI. Accordingly, economic diplomacy activities should be prioritized locally and globally. Such prioritization enables the effective use of scarce resources, advances economic diplomats' capacities in niche sectors, and creates a basis for the success of economic diplomacy.

Both Denmark and Finland have rich experience in the prioritization of export and investment sectors and markets/countries that may be productively used by Georgian economic diplomacy institutions. Japan and the Netherlands also have very useful experience in this field¹⁹.

Development of Methodology for the Prioritization of Markets

Methodology needs to be developed and institutionalized to identify target markets for economic diplomacy, based on international experience and existing practices in Georgia. **Strategic allocation of scarce resources for economic diplomacy** will improve its efficiency and results. The MFA is already considering the introduction of rotating positions which would entail assigning experienced staff to countries where the activation of economic diplomacy activities is necessary. In addition, it would be beneficial to evaluate the potential of economic cooperation with other states based on pre-defined criteria, such as dynamics of recent trade, investment, tourism activities, economic growth forecasts for partner states, demand for selected products and services matching the industrial and export potential of Georgia, market ten-

19 Japan heavily prioritizes infrastructure exports and mobilizes economic diplomacy institutions inside the country and abroad. In 2013, the country has developed "Infrastructure System Export Strategy" that has been revised in subsequent years. The Japanese government is striving to achieve 30 trillion yen in infrastructure exports by 2020. Export of agricultural, forestry, fishery products and food is also a top priority. Fukushima Nuclear Plant. The plan is to expand the export of Japanese agriculture, forestry, fishery products and food to 1 trillion Yen by 2019. The Dutch Economic Diplomacy also has an increasing focus on countries, sectors and programs. Dutch economic diplomacy prioritizes nine sectors where the country has a strong international position: agro food; horticulture and basic materials; high-tech materials and systems; energy; logistics; creative industries; life sciences; chemistry; and water. Ambassadors of the Netherlands devote 50% of their working time to economic diplomacy issues.

dencies, and the overseas activities of MNCs of partner states. In this regard, the Finnish experience of prioritizing countries for the allocation of economic diplomacy resources may be used.

Development of individual Strategies Towards Target Markets

At the initial stage, strategies towards countries/regions chosen for the allocation of commercial attachés (Germany, the UK, Turkey, the USA, Gulf States, China) shall be developed. Based on the experience of Denmark, strategies may define medium-term FDI attraction and export promotion targets for selected countries/regions.

Active Deployment of E-Solutions in Economic Diplomacy

Customer Relationship Management Software – This software will allow for: (1) creation of a unified online database of economic diplomacy activities; (2) tracking of activities by relevant officials; and (3) generation of various data and reports. It will serve as a supplementary tool for the improvement of the delivery of information and services to the private sector by economic diplomacy institutions.

Creation of a Joint Website of the MoESD and the MFA (www.economicdiplomacy.ge) – The website shall showcase all relevant activities of the MoESD, the MFA and other relevant institutions with regard to economic diplomacy. It shall present relevant news, initiatives, reports, research documents and studies, and serve as a primary tool of communication with stakeholders inside the country and abroad. The structure and the content of the website shall be designed by the MoESD and the MFA.

Activate Cooperation with Non-Governmental Stakeholders and the Private Sector

NGOs active in international economic relations, economic policy, export support and economic education may all play a supplementary role in increasing the efficiency of economic diplomacy. A regular cooperation format shall be established, where public, civil

and private sectors will exchange views on the priorities of economic diplomacy. State institutions shall also define ways of achieving more active involvement of foreign investors and Georgian enterprises in economic diplomacy activities. Existing foreign investors should also be more actively engaged in advertising the investment potential of Georgia.

Initiate Annual Review of Georgia's Economic Diplomacy

The joint annual report of the MoESD and the MFA shall review the activities and initiatives of economic diplomacy in a structured and user-friendly way. The report shall showcase the results of activities of economic diplomacy institutions, following the example of the Danish MFA regarding investment projects and the counselling of Danish enterprises. The main target audience of this annual review shall be representatives of the private sector and officials from economic diplomacy institutions.

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Annex 1

Measures and Initiatives of the “Government Strategy on Export Promotion and Economic Diplomacy”

Measure	Initiatives
Streamlining and co-ordination of export promotion programs and easing navigation for companies	Establishment of an integrated portal for government export promotion programs - Eksportguiden.dk
	Strengthened coordination between government export promotion entities in Denmark
	Partnerships and collaboration established with export promotion entities in the private sector
	Better and more consistent impact assessment to ensure ongoing optimization
	Establishment of a new advisory body - Foreign Economic Forum
Strengthening inter-ministerial efforts in pursuit of Danish economic interests globally	Establish growth counsellor positions in targeted markets
	Funding for strategic sector cooperation
	Better opportunities for market development and export of public sector related services
	Offensive trade policy to support Danish export companies
	Better utilization of opportunities provided by EU cooperation
	Establishment of a coordination group for exports and economic diplomacy
Strengthening foreign service contribution to growth and employment	Development of a comprehensive action plan for economic diplomacy
	Establishment of growth councils in Danish embassies
	New program for commercial projects with significant potential
	Public diplomacy and visa administration for the benefits of Danish business and industry
Optimization of Trade Council's efforts in cooperation with the Danish business community	Placed emphasis on political-commercial advisory services
	More strategic management with a focus on comparative added value and impact
	Ensure high quality of paid services
	Strengthened regional cooperation in relation to quality, marketing and sector knowledge
	Intensified CSR support for Danish companies in growth markets
Establishing a global presence, focusing on growth and volume markets	Increased growth orientation in Denmark's embassy network
	Prioritization of the most important growth and volume markets
	Continued dynamic and data-driven prioritization of global presence
	Differentiation of the Trade Council's presence
Securing better cohesion between development aid and commercial efforts	Strengthened Danish embassies in priority countries for development cooperation
	Assisted Danish companies in taking first steps in new markets – DANIDA Business Explorer facility
	Establishment of an Agricultural Investment Fund to contribute to projects in agriculture and food processing and creating good investment and contract opportunities for Danish companies
	Involvement of Danish companies in the improvement of developing countries' infrastructure
Facilitating access to financing for SMEs	Extended Export Loan Program
	Strengthened IFU presence in Latin America
	Establishment of a new investment facility for Ukraine
	Financing advisor in the USA – extension of the “financing advisory services program”
	Assisting Danish SMEs with the selling of minority stakes to strategic foreign investors
Boosting SMEs' internationalization and exports	Established SMEs programs with a focus on value creation through long-term collaborations
	Strengthened preliminary sector advising services and export preparation for SMEs
	Heightened focus on medium-sized enterprises
	Strengthened international innovation cooperation
Providing a better framework for effective export campaigns	Joint export promotion campaign program
	New partnership for official delegations – establishment of a new team in the MFA to ensure efficient and effective export promotion campaigns

Annex 2

Priorities and Actions for Growth Markets

Priority	Actions
Expanding relations with growth markets - reinforcement of networks in Denmark	Frequent visits of ministers to strengthen relations and profiling Danish competences and strengths
	Conduct strategic partnership agreements as a basis for expanding relations
	Establish collaboration forums at government level
	Support development of partnerships between Danish and growth market players
	Attract foreign ministers, business people and media
Export promotion	Support the establishment of collaborative and experience exchange platforms
	Dedicate 50% of export promotion means to BRIC countries and other growth markets
	Work to increase the number of SMEs that participate in export promotion schemes
	Further develop the Trade Council's programs Export Start Growth and Vitus Growth
	Enhance Danish MFA's presence in selected growth markets and direct efforts to overcoming barriers, market knowledge, sector expertise and public affairs including IPR and CSR
Financing	Design initiatives supporting joint sales efforts of Danish companies targeted towards specific business opportunities in growth markets
	Ensure a high level of export financing
	Establish joint consulting team for financing to enhance Danish companies' knowledge of export and investment financing and enhance their access to finance
Overcoming barriers	Enhance Go-Global collaboration by improving companies' knowledge of its offerings
	Enhance efforts to improve market access and overcome trade barriers; in general, this will be done with the involvement of relevant EU institutions
	Enhance the use of international negotiations on free trade agreements to overcome barriers most important for the Danish corporate sector
	Utilize high-level bilateral meetings to point out barriers of the Danish private sector and create specific solutions
Marketing Danish strongholds	Enhance consulting on framework conditions and barriers in individual growth markets
	Increase growth markets' awareness of Danish business strongholds
	Raise awareness of Danish products and solutions, and promote Denmark as an attractive place for investments, tourism, education and employment via existing marketing consortia
	Enhance companies' work on social responsibility
	Work actively to facilitate access to Denmark – attraction of new flights and improvement of visa regulations
Investment promotion	Enhance cultural exchange with growth markets
	Strengthen investment promotion efforts in Asia and recruit more local investment advisors for Invest in Denmark
	Analyze investment promotion potential in other growth markets
Collaboration on research, innovation and education	Set up "growth markets sales function" under Invest in Denmark, which, in cooperation, with Danish representations will proactively seek out potential investors in the growth markets where Invest in Denmark is not represented by its own staff
	Further develop and target innovation efforts in China and Brazil
	Enhance student mobility between Denmark and BRIC countries
	Strengthen retention of talent from growth markets
	Scrutinize opportunities to launch a Top Talent Program in Brazil
	Review opportunities for, and potential of, enhanced collaboration on research and education with India and Russia

Source: Government of Denmark (2012)

Annex 3

List of Interviewees

Name	Institution	Position
Nika Mamukelashvili	Enterprise Georgia	Acting Head of Export Support Department
Kristine Mepharishvili	Enterprise Georgia	Head of Investment Support Department
Aleksandre Khvtisiashvili	Ministry of Foreign Affairs	Head of International Economic Relations Department
Giorgi Pertaia		Former Director of Georgian National Investment Agency
Gvantsa Meladze	Export Development Association	Head
Giorgi Shervashidze	Ministry of Foreign Affairs	Deputy Minister
Nikoloz Revazishvili	Embassy of Georgia to the State of Qatar	Ambassador Extraordinary and Plenipotentiary
Tinatin Bregvadze	Levan Mikeladze Diplomatic Training and Research Institute	Director
Mikheil Ukleba	Levan Mikeladze Diplomatic Training and Research Institute	Ambassador, Research Fellow
Mariam Gabunia	Ministry of Economy and Sustainable Development	Head of Foreign Trade Policy Department



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