



The Economic Diplomacy of Small States: Beyond Economic Firepower in the Case of Luxembourg

Original Paper

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Abstract

Small states are particularly challenged within the prevailing multipolar and multifocal world order. To avoid being overpowered economically and politically in this rapidly changing context, small states increasingly seek shelter in multilateral frameworks and/or clusters around regional unions. Additionally, at a national level, they increase international cooperation, where economic diplomacy plays a key role. Focusing on Luxembourg, the European Union's wealthiest member state, this paper adopts a structural realist perspective to understand why the country pursues economic diplomacy. Applying the realist approach and extending the economic diplomacy Okano-Heijmans framework, this paper contributes to the conceptualization of economic diplomacy and posits that Luxembourg's economic diplomacy serves not only economic welfare but also political objectives for strengthening the country's positioning and soft power.

Keywords

economic diplomacy • soft power • small states • Luxembourg

1 Introduction

Small states are particularly challenged within the prevailing multipolar and multifocal world order. To avoid being overpowered in political and economic terms, small states increasingly seek shelter,¹ that is, they participate in multilateral frameworks and/or cluster around regional unions.² Additionally, at a national level, small states increasingly scale up international cooperation, where economic diplomacy plays a key role. For small states, leveraging economic diplomacy is not a choice but a necessity; it is a primary tool for survival, resilience, and influence in a system dominated by larger powers³.

Economic diplomacy serves both political and economic goals⁴ and is defined as the “pursuit of economic security within an

1 Thorhallsson, B. (2011). Domestic buffer versus external shelter: Viability of small states in the new globalised economy. *European Political Science*, 10(3), pp. 324–336; Bailes, A. J. K., Thayer, B. A. and Thorhallsson, B. (2016). Alliance theory and alliance ‘Shelter’: The complexities of small state alliance behaviour. *Third World Thematics: A TWQ Journal*, 1(1), 9-26.

2 Bishop, M. L., & Payne, A. (2021). The political economies of different globalizations: Theorizing regionalization in the Caribbean and beyond. *Globalizations*, 18(1), 1-17. DOI: 10.1080/14747731.2020.1779963.rha

3 Baldacchino, G., and Wivel, A. (2020). *Handbook on the Politics of Small States*. Cheltenham: Edward Elgar Publishing; Kavvadia, H., Adam, M. C., Clemons, K., Devenyi, V., Girotto, E., Lisova, Y., Mo, F. and Vojta, Z. (2018). The economic diplomacy of small states. A case study of the Grand Duchy of Luxembourg: Trade and services, Official Development Assistance (ODA), Foreign Direct Investment (FDI). Review of decentralisation, local government and regional development, 90(0), pp. 96–129; Dookeran, W. (2023). Economic Diplomacy in the Caribbean, 1(1), pp. 29-41, DOI: 10.2478/ecdip-2023-0001, Kavvadia, H. (2024). The Economic Diplomacy of Luxembourg within the European Union framework: between agility and stability. In Högenauer, A.-L. & Mišić, M. (Eds.), *Small States in EU Policy-Making: Strategies, Challenges, Opportunities*, pp. 105-125. London: Routledge.

4 Morgenthau, H., J. (1948). *Politics Among Nations: The Struggle for Power and Peace*. New York: A. Knopf; Pollins, B., M. (1989). Does Trade Still Follow the Flag. *American Political Science Review*, 83(2), 465–480. DOI: 10.2307/1962400; Economides, S & Wilson, P. (2001). *The Economic Factor in International Relations. A Brief Introduction*. London – N. York, NY: I. B. Tauris; Bayne, N. & Woolcock, S. (2007). *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*. Hampshire: Ashgate; Blanchard, J.-M., F. & Ripsman, N.-M. (2008). A political theory of economic statecraft. *Foreign Policy Analysis*, 4(4), 374–398. DOI: 10.1111/j.1743-8594.2008.00076.x;

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anarchic system”⁵, elaborated further as “the use of political means as leverage in international negotiations, with the aim of enhancing the national economic prosperity, and the use of economic leverage to increase the political stability of the nation”⁶. Most scholars acknowledge that a combination of political and economic tools is used to achieve goals of political and economic nature. The blending of goals and how they are achieved by every country is unique, constituting a distinctive “footprint” concerning their integration into the world order. Size is one of the determining factors shaping this mix. As mentioned, small states’ open economies and economic performance are inextricably linked to their survival. Yet no scholarly work conceptualizes economic diplomacy through the

“diplomacy-double helix”⁷,

which contrasts the prioritization of economic versus political goals and the use of economic versus political tools, with small states entirely overlooked. Whereas for large and middle-level powers, the predominance of political goals and tools is obvious⁸, for small states, the situation is less clear. Larger powers tend to be well-positioned in the world order, rely on their strong security capabilities and political weight, and are largely economically independent. Small states, in contrast, rely heavily on their economic diplomacy for both political and economic needs, given their inability to defend their existence and their small economies. However, scholars studying small states have not focused on their economic diplomacy. Instead, an ever-deepening and broadening scholarly literature has been covering small state characteristics, such as security, power, and integration into the international order⁹.

The paper attempts to integrate theoretical construction and case analysis. First, by incorporating political and economic goals and tools into its analysis, this paper allows researchers to theorize a new understanding of small states from the perspective of economic diplomacy. Applying the realist approach and extending the economic diplomacy framework developed by Okano-Heijmans (2011) to cover countries, the paper advances the conceptualization of economic diplomacy. Additionally, it provides a means of benchmarking and comparing countries based on their primary economic diplomacy goals and the tools they use for achieving them. Secondly, the paper adopts a case study approach for testing its theoretical approach and adding to existing scholarly work on Luxembourg, which is chosen as the case to study. By honing in on the economic diplomacy of Luxembourg, beyond empirical studies of the vectors of the country’s economic diplomacy¹⁰ 11, and the analysis of the country’s 4 economic diplomacy strategies and tactics 5 112.

By reviewing the economic diplomacy goals and tools, the paper allows researchers to theorize a new understanding of small states from the economic diplomacy perspective. Applying the realist approach and extending the economic diplomacy framework developed by Okano-Heijmans (2011) to cover countries, the paper advances the economic diplomacy conceptualization and provides a means for comparing countries based on their prime economic diplomacy goals and the tools they use for achieving

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5 Lee, D. & Hocking, B. (2010). Economic Diplomacy. In R. A. Denemark (Ed.) *The International Studies Encyclopaedia*, Vol. II, 1216–1227. Hoboken, NJ: Wiley Blackwell., p. 5.

6 Okano-Heijmans, M. (2011). Conceptualizing Economic Diplomacy: The Crossroads of International Relations, Economics, IPE and Diplomatic Studies. *The Hague Journal of Diplomacy*, 6 (2011), 7–36. DOI: 10.1163/187119111X566742, p. 17.

7 Hemery, J. (2005). Training for Public Diplomacy: an evolutionary perspective. In J. Melissen (Ed.). (2005). *The New Public Diplomacy: Soft power in International Relations*. London: Palgrave Macmillan. pp. 196–209. Retrieved from http://culturaldiplomacy.org/academy/pdf/research/books/soft_power/The_New_Public_Diplomacy.pdf p. 208.

8 Constantinou, C., M. & Sharp, P. (2016); Okano-Heijmans, M. (2016). Economic diplomacy. In C. Constantinou, P. Kerr, & P. Sharp *The SAGE Handbook of diplomacy*, pp. 552–563. London: SAGE Publications. DOI: 10.4135/9781473957930.n46.

9 Katzenstein, P., J., Keohane, R., O. & Krasner, S., D. (1999). *Exploration and Contestation in the Study of World Politics*. Boston, MS: MIT Press; Arter, D. (2000). Small state influence within the EU. *Journal of Common Market Studies*, 38(5), pp. 677–697; Majerus, J. M. (2008). Luxembourg und die Europäische Union—Entwicklung der Europapolitik. In W. H. Lorig & M. Hirsch (Eds.), *Das politische System Luxemburgs: Eine Einführung*, pp. 311–329. Wiesbaden: VS Verlag für Sozialwissenschaften; Veenendaal, W., P. & Corbett, J. (2015). Why Small States offer important answers to large questions. *Comparative Political Studies*, 48(4), pp. 527–549; Thorhallson, B. (2015). How do little frogs fly? Small States in the European Union. Policy Brief 12/2015. Norwegian Institute of International Affairs. Retrieved from https://www.researchgate.net/publication/327075090_How_Do_Little_Frogs_Fly_Small_States_in_the_European_Union; Panke, D. (2016). Small States in the European Union. Coping with Structural Disadvantages. Abington: Routledge; Steinmetz, R & Wivel, A. (2016). Conclusions. In R. Steinmetz & A. Wivel (Eds). *Small States in Europe. Challenges and Opportunities*, pp. 217–226. Abington: Routledge; Thorhallson, B. (2018). *The Role of Small States in the European Union*. Abington: Routledge.

10 Kavadia, H., Adam, M. C., Clemons, K., Devenyi, V., Giroto, E., Lisova, Y., Mo, F. and Vojta, Z. (2018). The economic diplomacy of small states. A case study of the Grand Duchy of Luxembourg: Trade and services, Official Development Assistance (ODA), Foreign Direct Investment (FDI). *Review of Decentralisation, Local Government and Regional Development*, 90(0), pp. 96–129.

11 Kavadia, H. (2024).

them. Additionally, this approach complements and facilitates the work on the economic diplomacy of states by adopting a case study approach, in this case, Luxembourg. In this way, the paper adds to existing scholarly work on Luxembourg¹² and builds further on the work on the economic diplomacy of Luxembourg that examined the vectors of the country's economic diplomacy¹³, and the research on Luxembourg's economic diplomacy strategies and tactics for influencing EU policies¹⁴.

By reviewing the economic diplomacy goals and tools, the paper examines why Luxembourg has pursued economic diplomacy and answers the following questions. Were Luxembourg's goals political or economic? Did Luxembourg achieve these goals through political or economic tools? Beyond the descriptive analysis of Luxembourg's economic diplomacy, the paper determines and presents graphically the positioning of Luxembourg on the extended Okano-Heijmans framework in terms of its economic diplomacy goals and instruments employed. To that end, the paper hermeneutically uses study material gleaned from primary, mainly statistical, as well as secondary academic sources to broadly examine Luxembourg's economic diplomacy.

The paper shows that Luxembourg has actively and increasingly pursued its economic diplomacy not only to promote its economic welfare but also to strengthen its position politically on the world scene through displaying soft power and influence for strengthening its positioning at the European and international levels.

Because of the pluralism underpinning the theoretical grounding of the paper, the next section focuses on its conceptual framework. The third section analyzes and evaluates Luxembourg's economic diplomacy goals and tools. The conclusion summarizes the paper's main findings.

2 Theoretical Grounding

Despite remaining largely under-researched, economic diplomacy is at the crossroads of international relations, international political economy, international economics, and diplomacy. It can, therefore, benefit from a wide array of research approaches, including well-established theoretical paradigms from political science. Realism, in all its variations, is perceived as overly focused on power, and liberalism is associated with interconnectedness; both are seen as grounded in material considerations, as opposed to constructivism or ideational theoretical approaches, which centre on the production of ideas, concepts, meanings, beliefs, and norms. Building on this solid pluralistic foundation, which grounds economic diplomacy in a multidisciplinary perspective while moving beyond potential orthodox constraints and "silos"¹⁵ allows for theorizing the relatively new field of economic diplomacy in the broadest possible terms.

Accepting the state's primary role in economic diplomacy, while recognizing that it is neither the only actor nor a fully coherent entity¹⁶, nor is the decisive factor for acknowledging an appropriate theoretical worldview angle is rather practical. It highlights the practical considerations that shape the choice of an appropriate theoretical worldview. Such a theoretical worldview concerns the choice of a framework that allows the study of complex state actors, the heuristics for deciphering, and the hermeneutics for understanding state motives in a multifaceted reality.

In the current context, smaller European Union (EU) members, such as Luxembourg, are increasingly ceding aspects of economic diplomacy to supranational institutions¹⁷, while also intensifying their direct, independent interactions with other countries at the national level. Small states demonstrate activism directly at the national level in economic diplomacy areas, such as trade,

12 Croisé-Schirtz, E. (1996). La bataille des sièges (1950–1958). In G. Trausch, E. Croisé-Schirtz, M. Nies Berchem, J. M. Majerus, & C. Barthel (Eds.), *Le Luxembourg face à la construction européenne/Luxemburg und die europäische Einigung*, pp. 67–104. Luxembourg: Centre d'études et de recherches européennes Robert Schuman; Bailie, S. (2005). The seat of the European institutions. An example of small-state influence in the EU. In G. Trausch (Ed.), *Le rôle et la place des petits pays en Europe au XXe Siècle*, pp. 465–478. Baden-Baden: Nomos; Frentz, J. -M. (2016). The foreign policy of Luxembourg. In R. Steinmetz & A. Wivel (Eds). *Small States in Europe. Challenges and Opportunities*, pp. 131–145. Abington: Routledge; Hirsch, M. (2016). About the Resilience of Small States. In R. Steinmetz & A. Wivel (Eds). *Small States in Europe. Challenges and Opportunities*, pp. xi–xvi. Abington: Routledge; Braun, C., N. (2020). The Virtue of Being Small: An Analysis of Luxembourg's Defence Strategy. *E-International Relations*. Retrieved from <https://www.e-ir.info/2020/03/20/the-virtue-of-being-small-an-analysis-of-luxembourgs-defence-strategy/>; Harmsen, R., & Högenauer, A.-L. (2021). Luxembourg and the European Union. <https://doi.org/10.1093/acrefore/9780190228637.013.1041>. In F. Laursen (Ed). *The Oxford Encyclopedia of European Union Politics*. Retrieved from <https://oxfordre.com/politics/page/european-union-politics/the-oxford-encyclopedia-of-european-union-politics>; Kavvadia, H. (2024). The Economic Diplomacy of Luxembourg in the European Union framework, between agility and stability. In A.-L. Högenauer & M. Mišík (Eds.), *Small States 54 in EU Policy-Making: Strategies, Challenges, Opportunities*, pp. 105-125. London. Routledge.

13 Kavvadia et al., (2018).

14 Kavvadia, H. (2024).

15 Xiaotong, Z. (2023). Introduction: Now is the Time to Study Economic Diplomacy. *Economic Diplomacy* 1(1), DOI: 10.2478/ecdip-2023-0006, p. 6.

16 Idem 7.

17 Missiroli, A. (Ed.). (2016). *The EU and the World: Players and Policies Post-Lisbon. A Handbook*. Paris: European Institute for Security Studies (ISS). DOI: 10.2815/123955, highlights that despite the EU's exclusive competences on aspects such as customs union and competition, and shared competence on internal market, the EU Member States can still unilaterally/bilaterally act on the constituting vectors of economic diplomacy (trade, investment, and development aid).

investment, and development, and indirectly through international organizations¹⁸. Structural realism provides answers related to why state behaviours emerge and follow a “top-down approach,”¹⁹ and can assist in unravelling the reasons why small states have developed an activist stance in economic diplomacy. Despite the frequent link between structural realism and power dynamics, structural realism is not separate from economic diplomacy, as the relationship between economics and security has been widely highlighted,²⁰ and economic diplomacy is often seen as grounded in the relationship between supporting security,²¹ or security policy used to achieve economic objectives²². Considering that it is

“imperative for all major powers to calibrate the security implications of their economic relationships and the economic implications of their security relationships [in] an interdependent world economy, positive economic relationships are an important instrument in any effort to engage or reassure other major powers”²³.

However, economic diplomacy, in the double helix sense described above, serves political and economic goals and pursues them through political and economic instruments. The economic diplomacy’s coalescence of political and economic goals and tools has been stressed by scholars linked to the Netherlands Institute of International Relations ‘Clingendael’, since the early 2000’s²⁴. Here, economic diplomacy is understood as follows:

“[It is] first and foremost about the nexus between power and wealth, which is as old as international relations itself. It is about how political, and security interests are advanced by economic means, and conversely, how economic interests are advanced by political means”²⁵.

It is also

“concerned with the use of economic resources by a state to achieve its foreign policy goals, and the pursuit of its economic interests abroad using political means”²⁶.

Similarly economic diplomacy is defined as

“the use of economic leverage to increase the likelihood of achieving a foreign policy objective”²⁷.

18 Bayne, N. & Woolcock, S. (2007). *The New Economic Diplomacy: Decision-Making and Negotiation in International Economic Relations*. Hampshire: Ashgate.

19 Narizny, K. (2017). On Systemic Paradigms and Domestic Politics: A Critique of the Newest Realism. *International Security*, 42(2): 155–190. DOI: https://doi.org/10.1162/ISEC_a_00296, p. 155.

20 Earle, M., D. (1943). *Makers of Modern Strategy: Military Thought from Machiavelli to Hitler*. Princeton, N.J.: Princeton University Press; Hirschman, A., O. (1945). *National Power and the Structure of Foreign Trade*. Berkeley and Los Angeles, CA: University of California Press; Institut Für Demoskopie Allensbach (IDA). (2018). *Luxembourg Business Compass. 17th Survey Wave*. Allensbach on Lake Constance: Institut Für Demoskopie Allensbach; Knorr, K. & Trager, F. N. (1977). *Economic Issues and National Security*. Lawrence, KS: University Press of Kansas; Skålnes, L., S. (2000). *Politics, Markets, and Grand Strategy. Foreign Economic Policies as Strategic Instruments*. University of Michigan Press. DOI: 10.3998/mpub.16092; Woolcock, S. (2019). Differentiation and soft power as a means of promoting a balanced rules-based trading system: The case of public procurement. In: S. Bilal & B. Hoekman (Eds). *Perspectives on the Soft Power of EU Trade Policy*. London: Centre for Economic Policy Research. Retrieved from <https://voxeu.org/content/perspectives-soft-power-eu-trade-policy>.

21 Polachek, S. (1980). Conflict and Trade. *Journal of Conflict Resolution*, 24(1), 55–78. DOI: 10.1177/002200278002400103; Baldwin, D., A. (1985). *Economic Statecraft*. Princeton NY: Princeton University Press; Kahler, M. (2004). *Economic Security in an Era of Globalization: Definition and Provision*. The Pacific Review, 17(4), 485–502. DOI:10.1080/0951274042000326032; Kopp, H., W. (2004). *Commercial Diplomacy and the National Interest*. Washington, DC: American Academy of Diplomacy & Business Council for International Understanding; Blanchard, J.-M., F. & Ripsman, N.-M. (2008); van Bergeijk, P., A., G. & Moons, S. (2009); Okano-Heijmans, M. (2011); Heath, T. (2016).

22 Katzenstein, P., J. (1985). *Small States in World Markets: Industrial Policy in Europe*. Ithaca, NY: Cornell University Press, p. 201.

23 Mastanduno, M. (1998). Economics and Security in Statecraft and Scholarship. *International Organization*, 52(4), 825–854. Retrieved from <http://www.jstor.org/stable/2601359>, p. 845.

24 Saner, R., & Yiu, L. (2003). *International Economic Diplomacy: Mutations in Post-Modern Times*. Discussion Papers in Diplomacy, Netherlands Institute of International Relations ‘Clingendael’. The Hague: Netherlands Institute of International Relations ‘Clingendael’ Retrieved from https://www.clingendael.org/sites/default/files/pdfs/20030100_cli_paper_dip_issue84.pdf; Lee, D., and Hudson, D. (2004). The Old and New Significance of Political Economy in Diplomacy. *Review of International Studies*, 30(3), 343–360; Melissen, J., & Lee, D. (2011). ‘Economic Diplomacy’ in Melissen, J., & Lee, D. (Eds.) (2011). *Economic Diplomacy: Economic and Political Perspectives* (Clingendael Diplomacy Papers Series). Netherlands Institute of International Relations ‘Clingendael’. The Hague: Netherlands Institute of International Relations ‘Clingendael’. Retrieved from https://www.clingendael.org/pub/2011/economic_diplomacy; van Bergeijk, P., A., G. & Moons, S. (2009); Okano-Heijmans, M. (2011).

25 Melissen, J., & Lee, D. (2011). ‘Economic Diplomacy’ in Melissen, J., & Lee, D. (Eds.) (2011). *Economic Diplomacy: Economic and Political Perspectives* (Clingendael Diplomacy Papers Series). Netherlands Institute of International Relations ‘Clingendael’. The Hague: Netherlands Institute of International Relations ‘Clingendael’. Retrieved from https://www.clingendael.org/pub/2011/economic_diplomacy, p.2.

26 Okano-Heijmans, M. (2013). *Economic Diplomacy: Japan and the Balance of National Interests*. Leiden: Brill, p. 9.

27 Idem 16, p. 3.

In terms of security, small countries mostly join with larger powers²⁸; in terms of economic relations, however, they tend to work more independently in regional economic cooperation clusters.

In this context, it is worth investigating the reasons for small states' economic diplomacy activism, beyond growth and prosperity, to better understand it from a double helix angle in the international system. To this end, a structural realist research approach can reveal a state's rational interests, such as political and economic ones²⁹. Additionally, this approach highlights the deeper reasoning behind selecting economic diplomacy's goals by unravelling the power-related linkages concerning states' capabilities in different sectors. Despite criticism that structural realism does not consider state preferences and prioritizes systemic and domestic variables³⁰, which facilitates functional differentiation among states, it enables country differentiation in the multi-actor economic diplomacy arena, allowing for a state-centric and structure-centric view³¹, a contingency angle³², and a multipolar balancing view³³. At its core, structural realism allows for differentiating countries according to their fit between their goals and the defining capabilities underlying these goals.

Furthermore, some of the structural realism's basic assumptions, such as self-help and survival based on means-ends rationality, match with the rationality of the ongoing concern and benefit-maximization assumptions, which underlie power politics as well as economics. In this sense, within the international system, states seek to maximize wealth³⁴ through achieving absolute and relative gains while balancing against threats, reflecting this paradigm's offensive and defensive qualities. Contrary to some critics' opinions, structural realism cannot be viewed as stipulating states' identical preferences. Even if states have the same underlying final causes, or "teloi," their hierarchical goal-setting structures differ in practice. Thus, structural realism neither presupposes nor expects states to converge upon a single economic diplomacy model. Since the model captures systemic and regional constraints and opportunities, it instead implies differentiation.

Nonetheless, the paradigm's conceptualization of the international system—different states make similar choices when faced with similar international circumstances—allows excellent replicability for case studies, such as the present one. Facilitating external validity and the generalizability of case study findings, replicability helps policymakers and practitioners transpose policies from one jurisdiction to another, since economic diplomacy research uses different countries as case studies, which is especially relevant when using small states as case studies. Small countries, such as Luxembourg, allow more in-depth analysis, providing valuable insights³⁵. A case study methodology³⁶—employed to address ontological concerns³⁷, capture reality, and generalize theoretical propositions—situates realism as an approach in which triangulation serves as a fundamental epistemological tool for providing a range of answers³⁸. This paper uses prior theory³⁹ and longitudinal investigation⁴⁰ to identify causal tendencies⁴¹. Because of its focus on a few and specific areas, Luxembourg is well-suited as a case study to understand economic diplomacy, serving as "a living lab"⁴².

What might ostensibly appear as a tautology, when wishing to unravel the reasons behind the pursuit of economic diplomacy while working within a structural realism paradigm, which is based on the fundamental stipulation that "self-help is necessarily the principle of action"⁴³ and that the primary goal of states is to secure their survival⁴⁴, is not conclusive in itself. Structural

28 Raeymaeker, O., D. (1974). Introduction. In: O., D., Raeymaeker, W. Andries, L. Crollen, H. De Fraye, and F. Govaerts (eds.), *Small Powers in Assignment*. Leuven: Leuven University Press; Pedersen, R., B. (2018). Bandwagon for status: changing patterns in the Nordic states status-seeking strategies? *International Peacekeeping*, 25(2), 217–241; Plagemann, J. (2021). Small States and Competing Connectivity Strategies: What Explains Bangladesh's Success in Relations with Asia's Major Powers? *The Pacific Review*. Published online (May,6). DOI: 10.1080/09512748.2021.1908410.

29 Buzan, B., Jones, C. & Little, R. (1993). *The Logic of Anarchy: Neorealism to Structural Realism* (1st ed.). New York: Columbia University Press.

30 Idem 17.

31 Ravenhill, J. (2008). *Global Political Economy*. Oxford: Oxford University Press; Schörning, N. (2015). Neorealism. In S. Schieder & M. Spindler. *Theories of international relations* (1st ed.). London: Routledge.

32 Pawson, R. & Tilley, N. (1997). *Realistic Evaluation*. London: Sage.

33 Waltz, K. (1993). The Emerging Structure of International Politics. *International Security*, 18(2), 44–79. DOI:10.2307/2539097.

34 Link, W. (1994). Überlegungen zu einer strukturellen Konflikttheorie. In: G. Krell & H. Muller (Eds.). *Frieden und Konflikt in den internationalen Beziehungen*, Festschrift für Ernst-Otto Czempiel, 99–115. Frankfurt a.M.: Campus Verl.

35 Veenendaal, W., P. & Corbett, J. (2015).

36 Yin, R., K. (2014). *Case Study Research—Design and Methods* (5th ed.). Los Angeles, CA: Sage.

37 Bhaskar, R. (2008). *Realist theory of science*. London: Routledge. Retrieved from https://uberty.org/wp-content/uploads/2015/09/Roy_Bhaskar_A_Realist_Theory_of_Science.pdf.

38 Idem 31.

39 Riege, A., M. (2003). Validity and Reliability Tests in Case Study Research: A Literature Review with 'Hands-On' Applications for Each Research Phase. *Qualitative market research*, 6(2), 75–86. DOI: 10.1108/13522750310470055

40 Idem 31.

41 Idem 36.

42 Sustainability Magazine. (2015). Luxembourg: 1st country to commit. Interview with Etienne Schneider, Vice-Prime Minister / Minister of Economy of Luxembourg. September 2015. Luxembourg: IMS Luxembourg. Retrieved from <https://www.troisiemerevolutionindustrielle.lu/2015/10/02/3eme-revolution-industrielle-le-luxembourg-sengage/>, p.31.

43 Waltz, K. (1979). *Theory of International Politics*. Reading, MA: Addison-Wesley, p. 111.

44 Schörning, N. (2015). Neorealism. In S. Schieder & M. Spindler. *Theories of international relations* (1st ed.). London: Routledge.

realism presupposes that states within an insecure international system endeavour to enhance their position by increasing their relative power. Building on this paradigm, many scholars find common ground in linking economic diplomacy with economic security⁴⁵. Thereby, Okano-Heijmans specifies that states differ in the ways they engage in maintaining or enhancing their economic security, which comprises economic prosperity and political stability. They follow diverse goals and use different instruments—ranging from economic to more political in character—to achieve primarily political and economic goals, or a combination of them.

“In other words, economic diplomacy involves a ‘business end’ and a ‘power-play end’, and all tools (in mirror view: expressions) of economic diplomacy can be placed somewhere in between these two extremes”⁴⁶.

Okano-Heijmans has developed a conceptual and schematic framework, as shown in Figure 1, for categorizing and positioning figuratively different strands of economic diplomacy, including commercial, trade, and financial diplomacy, as well as economic statecraft, comprising activities contributing

“to a stable international environment”⁴⁷.

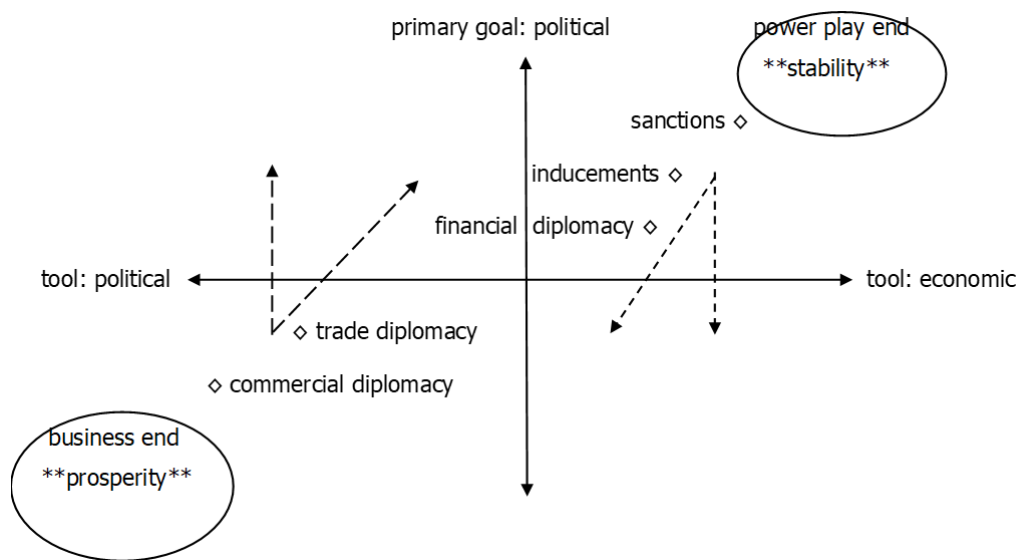


Figure 1: Okano-Heijmans framework—Strands of Economic Diplomacy
Source: Okano-Heijmans, *The Hague Journal of Diplomacy*, 6 (2011)

Okano-Heijmans’s framework views economic diplomacy as a new paradigm of public policy, manifested in different strands; whereby each one separately constitutes a different public policy area. However, if the economic diplomacy of states is seen as a whole, the framework can be extended to map states. Since states differ in how they apply economic diplomacy, the framework can be used to map states—based on the aggregated goals and instruments they use—and position them in respect of their economic diplomacy mixture of political and economic means and ends. Viewed through a Walzerian lens of “invisible”⁴⁸ goals, and situated within different theoretical paradigms, state strategies emerge when these goals and tools are mapped onto a matrix of constraints, and opportunities.

The findings can be seen as

“outcroppings [in the sense that they are aspects] of qualitative data analysis that recognizes some event or feature as representing deeper structural relations”⁴⁹

45 Lee, D. & Hocking, B. (2010); Okano-Heijmans, M. (2011).

46 Idem 7, p. 16.

47 Idem 7, p. 17.

48 Walzer, M. (1967). On the Role of Symbolism in Political Thought. *Political Science Quarterly*, 82(2), 191–204. DOI: 10.2307/2147214, p. 194.

49 Neuman, W., L. (2014). *Social research methods: qualitative and quantitative approaches*. (7th ed), Harlow: Pearson Education. Retrieved from http://letrunghieutvu.yolasite.com/resources/w-lawrence-neuman-social-research-methods_-qualitative-and-quantitative-approaches-pearson-education-limited-2013.pdf; p. 486.

of an underlying unobservable reality. Although the extended Okano-Heijmans framework only approximately positions states—according to their economic diplomacy's goals and tools—it constitutes an indicative graphic illustration, which can serve as a time-specific analysis of individual countries, as well as how they compare with other states. Used in combination with the structural realist paradigm, focusing on why countries pursue specific economic diplomacy policies, the framework can examine what and how economic diplomacy goals and tools are used. The paper tests this novel approach by positioning Luxembourg on Okano-Heijmans' extended framework in terms of the country's economic diplomacy goals and the instruments they use. For the historical analysis of Luxembourg's political and economic developments, the paper relied on secondary academic scholarship. Although scarce, such academic sources are reliable and well-documented. For analyzing the country's current situation, the paper used official primary sources, such as statistics from international, EU and national databases, as well as government strategy papers, press releases, and implementation reports. Additionally, the paper cross-examined and triangulated press articles by benchmarking them with official state data, and corporate material, including press releases and reports.

3 Sharpening a Political Edge through Economic Success

Luxembourg serves as a paradigmatic case study for testing the extended Okano-Heijmans framework, offering crucial insights into the mechanisms of modern economic diplomacy. While the country's influence stems not from traditional power metrics—size, population, or military strength—but from a deliberate, adaptive diplomatic strategy, structural realism remains analytically valuable. It explains how Luxembourg, as a small state, operates within a competitive international system, using economic diplomacy to secure advantage. From pioneering financial regulation to asserting leadership in space resources and sustainable finance, Luxembourg has consistently leveraged diplomacy to craft favorable regulatory environments, attract global capital, and carve out indispensable niche roles. Its evolution from a steel-based economy to a financial and technological hub exemplifies how a small state can employ astute economic diplomacy to achieve outsized influence, diversify its economy, and turn geopolitical constraints into strategic opportunities. Applying the extended Okano-Heijmans framework to this evolution helps decipher the underlying purpose—whether power-play or business ends—that has driven the country's development. This structured analysis not only clarifies Luxembourg's unique trajectory but also establishes a replicable model for comparative studies of other small states.

3.1 *Using Economic Diplomacy to Serve Political and Economic Goals*

Since its independence in 1836, Luxembourg, as a small state locked between two large powers (i.e., Germany and France), has pursued mixed economic diplomacy, comprising political and economic initiatives, for its survival. Through the angle of the extended Okano-Heijmans framework, Luxembourg, as an early practitioner of economic diplomacy, pursued political and economic goals alike, using a mix of political and economic tools. At first, Luxembourg sought to partner with its larger neighbours to strengthen its political positioning and increase its market power by creating a customs union. The country started as a member of the Zollverein (German Customs Union) in 1842, but due to a bitter occupational experience by the ultimately defeated Germany, the country turned to France with a similar proposal after the end of World War I. However, France responded with disinterest, so Luxembourg addressed its smaller neighbour, Belgium, which led to the establishment of the Belgium–Luxembourg Economic Union (BLEU) in 1922, a customs and currency union that lasted until the end of World War II. Luxembourg and Belgium were joined by the Netherlands in Benelux, a politico-economic union, alliance and formal international intergovernmental cooperation, in 1948. Due to a judicious blend of political and economic cooperation, the treaty was renewed in 2008, contributing to European integration. The three neighbors cooperated also to form the European Coal and Steel Community (ECSC) in 1951, leading to the creation of the European Economic Community (EEC) in 1957.

Through this activism, Luxembourg secured the major political achievement of its participation as a full and equal partner in almost all post-war international and regional institutions, such as the United Nations, the Council of Europe, the North Atlantic Treaty Organization, and the Organization for Economic Cooperation and Development. It was also a founding member of the EEC, which later developed into the EU. Luxembourg's increasing membership in international organizations, as exemplified recently by the country's haste to become the first EU member state of the Asian Infrastructure Development Bank⁵⁰, can be seen as a “multiplier of power”⁵¹, a way for the country to overcome its size-related structural constraints. Within international and European institutions, Luxembourg shows agility concerning its decision-making and policy formation through networking and lobbying⁵².

50 Ashbee, E. (2021). First mover advantage: the United Kingdom and the Asian Infrastructure Investment Bank. *Asia Europe Journal*. Online first articles, (May, 13). DOI: 10.1007/s10308-021-00595-6

51 Bourbaki, R. (2016). End of Paradise? Le Luxembourg et son secret bancaire dans les filets du multilatéralisme. *Critique Internationale*, 2(2), 55–71. DOI: 10.3917/cii.071.0055; Croisé-Schirtz, E. (1996), Bailie, S. (2005), Frentz, J. -M. (2016), Hirsch, M. (2016).

52 Croisé-Schirtz, (1996), Harmsen, R., & Högenauer, A.-L. (2021), Frentz, J. -M. (2016), Kavvadia, H. (2024).

In parallel to its multilateralism, Luxembourg has also pursued its political and economic goals bilaterally and independently. Luxembourg has often pursued skewed international relations, at times daringly deviating from the EU's official line—for example, as the first European country to sign the Artemis Accords with the United States on outer space resource exploitation in 2020, as the second EU country after Italy to join China's Belt and Road Initiative in 2019, and as one of the few countries to consider potential deliveries of Russia's Sputnik V coronavirus vaccine⁵³. Carving out such high-profile independent policies served the country's political and economic interests. Luxembourg raised its international profile and appeared also as an honest broker, mediator, and facilitator between parties⁵⁴, especially since other EU countries followed Luxembourg's cooperation choices in expanding sectors, such as trade flows, investment, finance, and science. The country's independent political and economic policy formation is also evident in its flexible alliance-building within international institutions. It swiftly shifts alliances to best defend its interests, as in the case of the customs union after World War II, twice exercising veto powers in the EU concerning banking secrecy and corporate taxation.

This mixed policy of goals, methods, and tools, amalgamating political and economic interests, enabled the survival of Luxembourg during the troubled years at the turn and the first part of the twentieth century. It also enabled the country's subsequent prosperity through a favourable context in terms of market and resource availability, which led to the smooth transition of its economic model.

As mentioned by Kavvadia (2024), Luxembourg's economic diplomacy developed in support of its evolving economic model in three waves. The first wave (1836–1980s) was based on the secondary sector and characterized by the dominance of steel manufacturing; the second wave (1980s–2010s) focused on the financial sector; and the third wave (since 2010s) has transitioned the country into the quaternary sector by promoting digitization and innovation. All three waves promoted the country's strategic economic sectors; the first two were predominantly mono-focal, while the third promoted a multifocal economic structure to increase resilience after the 2008 global economic and financial crisis.

3.2 ...and Using Political and Economic Tools

To achieve its goals through economic diplomacy, Luxembourg used a mixture of instruments. Its toolkit blended political and economic processes. Political economic diplomacy instruments, such as state actor negotiations at the international and European levels, were supplemented over time with state and non-state activism by business, financial, academic and civil society groups. Luxembourg engaged in a broad range of initiatives to strengthen its position, image, and impact; it used activism to match its economic diplomacy with the prevailing economic model in the three waves of its development. Analyzed through the “double helix” lens and using the extended Okano-Heijmans and Kavvadia frameworks, Luxembourg's economic diplomacy reveals primary goals and tools specific to each economic model. The analysis demonstrates that Luxembourg's economic diplomacy was not static. As illustrated in Table 1, its primary goals and instrumental tools evolved model by model, driving a strategic re-orientation that cycled between power-play and business ends.

Table 1: Luxembourg's economic model and economic diplomacy evolution: extended Okano-Heijmans and Kavvadia frameworks

	Economic model focus	Economic diplomacy's primary goal served (political versus economic)	Economic diplomacy's primary tools used (political versus economic)	Economic diplomacy's primary orientation (power-play end versus business end)
1st Wave (1836-1986*) Secondary economic sector Steel manufacturing	Monofocal	Political	Economic	Power-play end
2nd Wave (1980-2010*) Tertiary economic sector	Monofocal	Economic	Political	Business end
3rd Wave (2010*-...) Quaternary economic sector	Multifocal	Political	Economic	Power-play end

Sources: Okano-Heijmans, *The Hague Journal of Diplomacy*, 6 (2011), and Kavvadia, in *Small States in EU Policy-Making: Strategies, Challenges, Opportunities* (2024)—extended by the author

53 Reda-Jakima, Z. (2021). Luxembourg weighs ordering Russian vaccine. Luxembourg Times, March 12. Retrieved from <https://www.luxtimes.lu/en/luxembourg/luxembourg-weighs-ordering-russian-vaccine-604b4017de135b923650b6e7>

54 Idem 48.

In the first wave, the country's economic diplomacy focused on political goals through several inter-state agreements mentioned above, which were vital for establishing the country politically after its independence. Parallely, Luxembourg, used economic tools for securing steel exports and energy imports. The country's economic diplomacy orientation during the first wave has therefore served the power-play end. During the second wave, and given that Luxembourg had already been well-integrated within the European Union and the international community through its participation in all major international organizations, the country's economic diplomacy prioritized economic goals for consolidating and further improving economic growth. Consequently, Luxembourg privileged the use of economic tools. In this period, the country intensified its commercial and financial economic diplomacy, relying not only on state institutions but increasingly on non-state actors from both the public and private sectors, including enterprises, banks, chambers of commerce, diplomatic representations, and NGOs. Demonstrating advocacy with multiple instruments—such as communication, branding, entrepreneurial visits, and roadshows—Luxembourg became a financial hub. Additionally, it showed agility and opportunistic activism in utilizing opportunity windows to attract foreign direct investment, as in the case of its privileged tax treatment (later known as the Lux Leaks case), and its endeavours to benefit by attracting financial firms leaving the United Kingdom as a result of Brexit for an EU member state. Currently, Luxembourg is the seat of two of the three major European financial institutions—the European Investment Bank and the European Stability Mechanism—and home to 140 foreign banks, more than 3,500 funds, numerous investors, and a stock exchange. In a nutshell, during the second wave, Luxembourg's economic diplomacy orientation shifted to the business end.

During the third wave of development, having achieved robust and sustained economic growth, Luxembourg has intensified its economic diplomacy activism in commercial and financial areas. Concurrently, it launched ambitious new initiatives in science and space diplomacy. This period was defined by a strategic diversification of the national economy to facilitate a transition into Industry 4.0. The driving purpose of this shift extended beyond further economic gain; it was fundamentally aimed at securing greater political influence and an elevated position on the global stage. In terms of the Okano-Heijmans framework, Luxembourg's orientation thus shifted decisively back towards the power-play end. The state pursued primarily political goals by deploying the full spectrum of economic diplomacy tools—including trade, investment, finance, development, science, space, and digital diplomacy—for two principal reasons: First, as this wave's activity encompasses all seven economic sectors mentioned above, economic diplomacy addresses them all. Due to the country's size and its limited production and market capacity, it has historically been dependent on international exchanges. Commercial diplomacy has intensified with the country's development insofar as a stronger domestic industrial production seeks external resources and markets, while Luxembourg's affluent society expects to further improve its standard of living. On the one hand, trade diplomacy has been strengthened indirectly through European and international institutions for facilitating trade exchanges in a multipolar world of increased competition for markets, resources and investments, and latent trade disputes and value chain disruptions demonstrated during the pandemic. On the other hand, the increasingly developed and self-assured country has been pursuing new bilateral agreements to promote its interests over and above the multilateral arrangements, concerning mainly space, science, and digital cooperation. To expand beyond its territorial border and escape its small size, the third wave of development is of utmost importance for Luxembourg. If properly implemented, this economic model can increase the country's limited production possibilities⁵⁵ by facilitating access to factors of production and global market opportunities remotely through the Internet of Things and a global community of prosumers. The fact that Luxembourg was the first European state to create a space resources' legal framework exemplifies its endeavour to access raw materials and market opportunities beyond Earth. To this end, Luxembourg is developing at the national level a vibrant ecosystem for using outer space resources and participating in the nascent lunar economy. At the international level, Luxembourg has concluded eight bilateral agreements and the Artemis Accords⁵⁶ to secure cooperation that can bolster, uplift and leverage the country's efforts and know-how capabilities in outer space exploration and exploitation. During the third wave, Luxembourg has expanded its advocacy and branding as Europe's financial centre and now positions itself as a hub for green finance, logistics, space issues and digitalization.

Throughout its three-wave development, Luxembourg has tried to secure external resources to counter its production and capacity limitations and spur economic growth by increasing the volume and widening the mixture of resources. During the first wave, it imported natural resources, capital goods, and energy through trade and know-how through immigration, and

55 International Monetary Fund (IMF). (2017). Luxembourg selected issues. IMF Country Report No. 17/114. Washington, D.C.: IMF. Retrieved from <https://www.imf.org/-/media/Files/Publications/CR/2017/cr17114.ash>; European Commission (EC). (2019). Country Report Luxembourg 2019. Commission Staff Working Document accompanying the document: Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank and the Eurogroup. 2019 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011. Brussels: EC. Retrieved from https://ec.europa.eu/info/sites/default/files/file_import/2019-european-semester-country-report-luxembourg_en.pdf; Organisation of Economic Cooperation and Development (OECD). (2019). OECD Economic Surveys: Luxembourg 2019. Paris: OECD Publishing. DOI: 10.1787/424839c1-en.

56 Gerhardstein, N., A. (2020). Luxembourg becomes 1 of 8 Artemis accords signatories. Delano, October 13. Retrieved from https://delano.lu/d/detail/news/luxembourg-becomes-1-8-artemis-accords-signatories/211961?utm_medium=email&utm_campaign=Wednesday%252014%2520October%2520Noon%2520Briefing&utm_source=Newsletter.

during the second, it pursued foreign direct investment for its industrial and financial basis while importing skilled workers from neighbouring countries through tax and remuneration incentives. For the third wave, Luxembourg has additionally included importing and hosting information and big data through adapting its business practices, education system, and regulatory regime. This approach aims to overcome the country's "digital skill gap"⁵⁷ and infrastructure shortcomings for "reverse logistics"⁵⁸, required for its smart and circular economy segments, respectively. Building on its traditional political, social and economic culture of consensus building and inclusion⁵⁹ and aiming at a

"broad representative swath of the national community in jointly planning"⁶⁰

the country's future configuration, Luxembourg is building a social model incorporating more than 300 socio-economic actors from government, the business community, academia, and civil society. This corporatist approach, oftentimes practiced by small states⁶¹, harmonizes mixed views among economic actors relating to the country's new economic model⁶². In doing so, the country engages its state and non-state actors in all strands of its economic diplomacy, thereby raising its visibility and multiplying possible outcomes.

Luxembourg's official development assistance (ODA) has consistently remained above the OECD threshold of 0.7% of gross national income (GNI), placing it among the only three EU countries to achieve this level. Despite declining donor contributions caused by the economic crisis and the pandemic, this performance can be considered a case in point. While its development aid focus remains geographically limited to seven partner countries, among the least developed countries (LDCs) in Western Africa and the Sahel region, Luxembourg has nonetheless enlarged the scope of its cooperation in this region by coupling it with and political and security aspects, as exemplified in the provision of satellite imagery and military training to Mali⁶³ within a UN remit.

3.3 *Luxembourg's Economic Diplomacy Signature Blend*

This analysis has showcased the entangled political and economic goals and tools of forming an economic diplomacy-double helix⁶⁴.

By succinctly linking political and economic goals and tools in a distinctive manner, countries can shape their signature blend of economic diplomacy, which, when shown on Okano-Heijmans's extended framework, marks the country's unique footprint. Although a systematic quantitative measurement of each country's mixture of political and economic goals and tools has not been developed, and could well be a topic for further research, the qualitative assessment above has sufficiently demonstrated that Luxembourg has been following a politically nuanced economic diplomacy.

Thus, the country's positioning on the Okano-Heijmans extended framework in Figure 2 is by no means accurate; nonetheless, it presents a meaningful figurative indication of the economic diplomacy footprint. This can be particularly useful if used in a comparative analysis of more than one country. Similarly, as the original Okano-Heijmans framework has been used to place economic diplomacy strands on a matrix of political versus economic goals and tools, the extended framework allows deciphering states' economic diplomacy in a representational manner to improve its understanding. In this sense, the extended framework can also constitute a basis for an effective evaluation of economic diplomacy by assessing whether the tools have been appropriately used for achieving the desired goals.

An economic diplomacy policy with political goals and tools, as Luxembourg's, should, therefore, be viewed as an attempt to strengthen the country's positioning and increase its political influence, not just its economic position. This goal is achieved by exercising what Joseph Nye calls "soft power":

"the ability to affect others to obtain the outcomes one wants through attraction and persuasion rather than coercion or payment"⁶⁵.

57 Third Industrial Revolution Luxembourg (TIRLUX). (2016). The 3rd industrial revolution strategy study for the Grand Duchy of Luxembourg. Luxembourg: Third Industrial Revolution Luxembourg. Retrieved from https://www.troisiemerevolutionindustrielle.lu/wp-content/uploads/2016/11/TIR-Strategy-Study_Short.pdf, p. 100.

58 Idem 51, p. 110.

59 Hirsch, M. (2016), Harmsen, R., & Högenauer, A.-L. (2021), Frentz, J. -M. (2016), Kavvadia, H. (2024).

60 Idem 51.

61 Idem 17.

62 Ferns, M. (2018). Lux business leaders have mixed views on Rifkin. Delano, July 31. Retrieved from <https://delano.lu/d/detail/news/lux-business-leaders-have-mixed-views-rifkin/187926>; Institut Für Demoskopie Allensbach (IDA). (2018).

63 Bauldry, J. (2020). Stabilising Mali: Lux provides satellite and training capabilities. Delano, January 14. Retrieved from <https://delano.lu/d/detail/news/stabilising-mali-lux-provides-satellite-and-training-capabilities/209067>

64 Idem 7.

65 Nye, J. S. (2019). Soft Power and Public Diplomacy Revisited. *The Hague Journal of Diplomacy*, 14(1–2), 7–20. DOI: 10.1163/1871191X-14101013, p. 7.

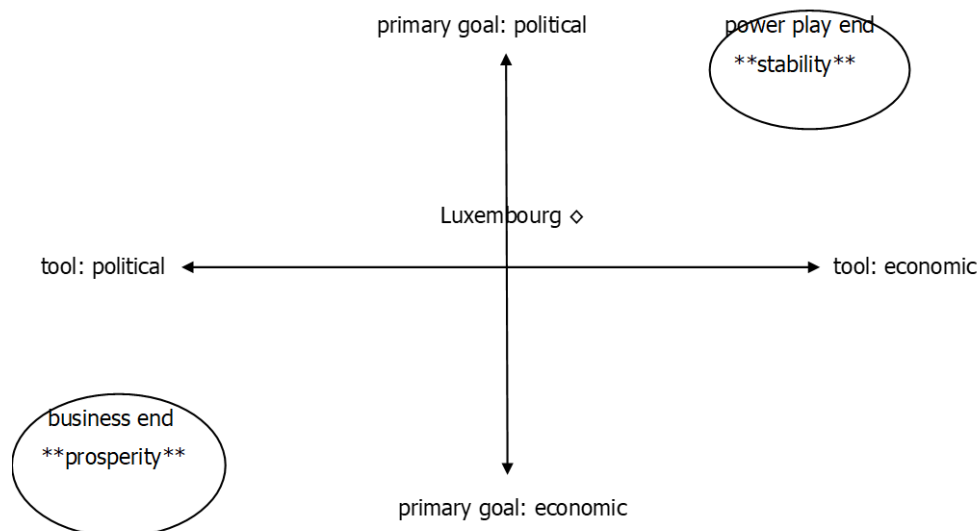


Figure 2: Okano-Heijmans's Extended Framework: Country Models of Economic Diplomacy
 Source: Okano-Heijmans, *The Hague Journal of Diplomacy*, 6 (2011)—extended by the author

This approach is a natural way for small states to achieve their international relations goals, given their lack of hard power capabilities; soft power “co-opts people rather than coerces them”⁶⁶. Although a “country may often obtain preferred outcomes in world politics because other countries want to follow it, admiring its values, emulating its example, and aspiring to its level of prosperity and openness, [this takes longer to show results]”⁶⁷, and it is by no means easy to achieve. This explains why Luxembourg, despite its successful economic diplomacy, has not yet made it into the Soft Power 30, an index based on Nye’s work⁶⁸ (2019), with seven constituent indicators including government, culture, diplomacy, education, business, digital, and polling data. From the three resources that the soft power of a country rests upon according to Nye, Luxembourg possesses the European values⁶⁹, the foreign policy, and particularly the economic diplomacy, as shown in the analysis above, but not a commensurate cultural radiance, as a result of its size. Luxembourg, therefore, has undertaken several steps to strengthen its national identity and cultural outreach. Since the mid-1980s, the country has made Luxembourgish the official state language, invested in various high-profile cultural sites and projects, and developed its mass media sector, broadcasting regionally and internationally. Today, the country’s contemporary culture projects its openness for people, ideas, and capital.

4 Conclusions

As opposed to large and middle-level powers, small states rely heavily on their economic diplomacy for both political and economic needs instead of their political might. This paper conceptualized economic diplomacy using the economic “diplomacy-double helix”⁷⁰ concept to analyze small states’ prioritization of economic versus political goals, and economic versus political tools used to achieve economic diplomacy goals. For increased understanding, comparability and a visual representation of the finding, the paper extended the Okano-Heijmans economic diplomacy framework to map countries according to their national economic diplomacy blend of political and economic means and ends. Using Luxembourg as a paradigmatic case study demonstrates the utility of this approach. The country’s small size and remarkable economic success make it a compelling model for replicability. Luxembourg’s economic diplomacy has evolved in three distinct waves, each designed to support the strategic sectors chosen to spearhead its ever-evolving economic model. The country’s agile and skilled economic diplomacy enabled it to navigate and exploit a changing global context by maximizing the benefits stemming from the country’s strengths

⁶⁶ Idem 59, p. 8.

⁶⁷ Idem 59, pp. 7-8.

⁶⁸ Softpower 30. (2019). Overall Ranking 2019. Retrieved from <https://softpower30.com/>.

⁶⁹ Idem 56.

⁷⁰ Idem 58, p. 208.

and minimizing drawbacks linked to Luxembourg's vulnerabilities. This path has been grounded in long-term vision and consistency, developing an effective diplomacy to promote national priorities internationally. This approach can be emulated in the study of the economic diplomacy of other small countries, allowing for cross-national comparative studies. Grounded in a pertinent self-assessment of strengths and weakness, an accurate reading of developments at national, EU and global levels, a strategy characterized by foresight, Luxembourg has developed an effective economic diplomacy to promote its political and economic priorities. Luxembourg's economic diplomacy, interlinked political and economic goals, have been achieved through a mixture of instruments, blending political and economic processes. This mixed approach, amalgamating political and economic goals and instruments, helped Luxembourg not only became the EU's wealthiest country but also survived the turbulent years at the turn of and the first part of the twentieth century, the 2008 global economic and financial crisis, and the coronavirus pandemic. Additionally, Luxembourg has used its economic diplomacy to increase its soft power for international positioning and influence by consistently and strategically projecting the country's contemporary culture of openness to people, ideas, and capital. While Luxembourg benefits from its central European location and foundational EU status, these structural advantages alone cannot explain its outsized economic success and influence. Its exceptional standing is fundamentally a product of strategic national policy. The country's economic diplomacy—characterized by interlinked political and economic goals—has been achieved through a sophisticated mixture of political and economic instruments. This blended approach has not only propelled Luxembourg to become the EU's wealthiest nation but also enabled it to survive major crises, including the 2008 global financial crash and the coronavirus pandemic. Furthermore, Luxembourg has consistently leveraged its economic diplomacy to build soft power, strategically projecting a national culture of openness to people, ideas, and capital to enhance its international positioning.

Using Luxembourg as a case study, this paper contributes by offering an extended analytical framework that can be emulated in countries' analyses and cross-national comparative studies of small states. It also enriches the conceptualization of economic diplomacy itself, moving it beyond a purely economic focus by illustrating how political and economic strands are inextricably woven together in practice.

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