GREAT DECISIONS
1918 • FOREIGN POLICY ASSOCIATION 2014 EDITION

Background guide: U.S. trade

Overview

When it comes to foreign policy, we know about the sanctions, the treaties, and the military campaigns. But what about the sales pitch?

It's an idea called economic statecraft. The logic is simple: promote the benefits of democracy and the free market. The goal is to attract regional stability and viable business partners because a free nation can spend more money on American exports and capital investments in American businesses.

Secretary Clinton pushed for the State Department to increase its use of economic tools in diplomacy. Now, as China and other emerging nations battle the US for global influence, Secretary Kerry will take the reigns as free market matchmaker.

Commercial diplomacy and NGOs

According to the State Department, the power of a nation is now measured more by the dollars in its coffers rather than the number of soldiers in its armies.

So the U.S. is emphasizing new economic tools in its diplomacy, while also strengthening the economy at home.

The State Department has an ambitious plan to put its 270 American embassies and consulates to work on a sort of global advertising campaign for American industry. The goal is to double U.S. exports in the next five years.

Washington also plans to push countries like India and China for a more level playing field. Trade regulations in those nations currently hamper American access to billions of potential customers.

Trade and Investment and Global Institutions

One of the keys to economic statecraft is free trade. Less restriction means more money to invest in American companies.

Free trade agreements are often secured through the World Trade Organization and the World Bank, multilateral organizations that use economic muscle to regulate ground rules on the global playing field.

But both these institutions were created in the wake of World War II. And developing economic powers have cried foul, saying their bylaws unfairly benefit Western nations.

As a result, Brazil, Russia, India, China, and South Africa—collectively known as BRICS nations—announced plans in 2013 to launch their own development bank. With an initial fund worth $10 billion, the new bank may tip the scales of economic power away from the U.S. and its Western allies.

So the State Department has begun negotiations for two different "mega-trade" agreements with Asia and Europe, while also looking toward regions of developing nations—like Africa, which is home to seven of the world's ten fastest growing economies—or Central Asia, where a network of trade pipelines dubbed the "New Silk Road" is ushering in an economic renaissance.

Policy Options

In the battle for economic influence, the United States has a two-front strategy. Like the military, the State Department has declared a "Pivot to Asia," welcoming a new era of free trade deals in the East. The Trans-Pacific Partnership could mean big revenues for American companies, but it's not without flaws. Some have criticized the deep secrecy that has shrouded the negotiations. Recent leaks of the drafted treaty by Wikileaks have exposed the dramatic changes in laws dealing with intellectual property and online piracy.

On the other ocean, American leaders are working to finalize the Transatlantic Trade and Investment Partnership. But the harsh economic climate has prompted some European businesses to protest any new regulations.

However these new deals turn out, it's clear the U.S. is making economic statecraft a priority. It is likely that business acumen—rather than military might—will define the new generation of global superpowers.

Experts

Matthew P Goodman, *Former White House coordinator for Asia-Pacific Economic Cooperation (APEC) and the East Asia Summit (EAS)*

Eric Emerson Schmidt, *Executive Chairman of Google Inc.*

John Kerry, *U.S. Secretary of State*

Madeleine Albright, *Chair of Albright Stonebridge Group and of Albright Capital Management LLC, former Secretary of State.*

Tim Geithner, *Former Secretary of the United States Department of the Treasury*

Mohamed El-Erian, *CEO and co-CIO of PIMCO, a global invest-*

ment management firm

Nancy Birdsall, *President of Center for Global Development*

Scott Morris, *Visiting policy fellow at the Center for Global Development. Represented the U.S. government in the G-20's Development Working Group*

Quick Facts

Secretaries of State George Shultz and James Baker of the Reagan-Bush era had both previously served as Treasure Secretaries, suggesting close linkages between foreign policy and economics.

In September 2012, the State Department led the largest U.S. business delegation ever to Egypt to discuss investment and jobs and the reforms needed to foster a friendly business climate.

According to The Economist, Sub-Saharan Africa was home to six of the ten fastest growing economies between 2001 and 2010. Exports from beneficiaries of the Africa Growth and Opportunity Act were $53.8 billion in 2011, a 21.5% increase compared to the previous year.

The Transatlantic Trade and Investment Partnership (T-TIP) will further open EU markets, increasing the $458 billion in goods and private services the U.S. exported in 2012 to the EU, our largest export market.

T-TIP will aim to boost economic growth in the U.S. and the EU and add to the more than 13 million American and EU jobs already supported by transatlantic trade and investment.

The collective GDP of the countries in talks with the U.S. to form the Trans-Pacific Partnership is $11 trillion. By comparison, the U.S. ranks first with its $15 trillion GDP.

It is estimated that the Trans-Pacific Partnership could add $76 billion a year to the United States economy, about 90% of the money saved by the recent sequester.

The White House has indicated that divergent or duplicative health, safety, and technical regulations are the greatest barriers to its goal of doubling U.S. exports by 2014.

The Aynak copper and Hajigak iron-ore mines could enter into production as early as 2016. World Bank projections state they could each create 90,000 jobs and up to $500 million in annual revenue for the Afghan Government when developed.

As of March 2012, the World Bank's Trade Facilitation Facility provided 48 projects with a total budget allocation of $34.6 million, mainly benefiting African countries.