

FOREIGN AFFAIRS

MAY/ JUNE 1997



Business and Foreign Policy

Jeffrey E. Garten

Volume 76 • Number 3

The contents of *Foreign Affairs* are copyrighted.
© 1997 Council on Foreign Relations, Inc. All rights reserved.

Business and Foreign Policy

Jeffrey E. Garten

DESTINATION UNKNOWN

THROUGHOUT MOST of American history, commercial interests have played a central role in foreign policy, and vice versa. During the next few decades the interaction between them will become more intense, more important, more difficult to manage, and more complicated for the American public to understand. The second Clinton administration should lay out a framework for this interaction to provide the necessary guide for setting priorities, making difficult tradeoffs between economic and foreign policy issues, and gaining popular support.

In mid-1997 it is not clear where either Washington or the American business community is headed. The president's first term ended on a note of ambiguity. The early enthusiasm for aggressive trade negotiations—for NAFTA and GATT and with Japan—was absent in the 1996 election as trade liberalization, possibly the administration's greatest accomplishment, was nowhere on the political agenda. High-profile trade missions had wound down even before the death of Secretary of Commerce Ronald H. Brown in a plane crash while on a mission to Bosnia in early 1996. A Republican Congress made it a high priority to eviscerate the Department of Commerce, the Overseas Private Investment Corporation, and the Export-Import Bank in the name of slashing "corporate welfare," and campaign contributions from

JEFFREY E. GARTEN, the Under Secretary of Commerce for International Trade from 1993 to 1995, is Dean of the Yale School of Management. This article is based on his book, *The Big Ten: The Big Emerging Markets and How They Will Change Our Lives*, to be published in May by Basic Books.

abroad raised a host of questions about whether America's commercial diplomacy, particularly in Asia, was for sale. The administration's efforts to save the export promotion agencies seemed hollow, and the president's defense of aggressive commercial engagement was less than resounding. Perhaps this was just a hiatus while a new administration and Congress got organized. But it was likely more than that: the executive branch had lost its laser-like focus on the importance of foreign markets to the United States, and a business community that since 1995 had been distracted by tax cuts and deregulation had become complacent about its long-term competitive position in the world economy.

There is a critical need for the administration and business leaders to get their collective act together. Their objective should be a new partnership based on two realities of the changing global marketplace. The first is that the federal government's ability to conduct foreign policy in a world preoccupied with economic stability and progress is dwindling, and Washington has neither the people nor the money to exert the influence it once could. The second is that even though business has the money, technology, and management that make today's world spin, it needs Uncle Sam's help more than ever, particularly in a world where governments are awarding big contracts abroad and companies are becoming ensnared in issues such as human rights, labor practices, environmental protection, and corruption. These circumstances have in them the elements of a cooperative deal.

FOREIGN POLICY, INC.

FOR MOST of America's history, foreign policy has reflected an obsession with open markets for American business. The United States has sought outlets for surplus wheat, new markets for autos and airplanes, and access to raw materials like oil or copper. Business expansion abroad was often seen as an extension of the American frontier, part of the nation's manifest destiny. History even records numerous instances when foreign policy seems to have been made or executed by individual companies; protecting the interests of United Fruit, for example, was once synonymous with Washington's policy toward Latin America. More recently, the Big Three auto companies pushed the first Clinton administration to the brink of a trade war with Japan.

Business was able to drive a good deal of foreign policy because of unique features of American society. Corporate leaders, lawyers, and investment bankers were able to move in and out of the highest levels of government. The names are familiar: Elihu Root, Thomas Lamont, Dean Acheson, Robert McNamara, Donald Regan, and Robert Rubin, among others. In addition, the Constitution gave Congress control over trade policy, thereby providing continuous and unlimited opportunities for business lobbying. America was not a traditional colonial power; to the extent that it acted imperialistically, its agents of influence and control were generally American banks and companies, not the military.

Moreover, the nation's motives were never entirely commercial. The United States has not taken mercantilism as far as France or Japan. Americans have associated commerce with open markets, open markets with political freedom, political freedom with democracy, and democracy with peace. During the Cold War, the nation saw an open trading system that included Europe and Japan as helping those societies resist communism and the Soviet Union.

The United States' fundamental drivers of business and foreign policy will remain constant, since they are deeply rooted in America's history and philosophy. What is rapidly changing now is the context in which the nation's interests are acted out. The new landscape is characterized by globalization of American business, the political and economic fragility of many up-and-coming trading partners, and growing tension between values widely held in America and other countries' economic and political goals.

To begin with, the health of the American economy is more closely linked to foreign markets than ever before. The country can no longer generate enough growth, jobs, profits, and savings from domestic sources. More than one-third of America's economic growth now derives from exports. By the turn of the century, more than 16 million jobs will be supported by overseas sales. From Coca-Cola to Caterpillar, many U.S. companies are taking in more than 50 percent of their revenues abroad. From a foreign policy standpoint, moreover, America's links to most countries, and its potential

The U.S. economy is tied to foreign markets more than ever before.

influence on them, depend increasingly on commercial relationships. Trade, finance, and business investment have become the sine qua non of links with Russia, China, Japan, Southeast Asia, the European Union, and the nations of the western hemisphere.

The most crucial markets are those where not only the opportunities but also the commercial and political risks are the greatest. These big emerging markets include those the Clinton administration has identified as America's most promising for trade and investment: Mexico, Brazil, Argentina, South Africa, Poland, Turkey, India, members of the Association of Southeast Asian Nations, the China–Hong Kong–Taiwan region, and South Korea. These countries are growing two to three times faster than the industrialized countries of the Organization for Economic Cooperation and Development; the value of U.S. exports to them already exceeds that to the EU and Japan combined. Over the next decade planners in these markets anticipate spending more than \$1.5 trillion on airports and telecommunications and energy systems.

Most of the big emerging markets are undergoing tumultuous political and economic change. From Mexico to South Africa to Indonesia, the simultaneous opening of their economies and political systems is unleashing unprecedented demands and raising profound questions about their ability to sustain high growth, open markets, and political stability. It is in these markets that other American interests—human rights, labor practices, environmental protection, and a reduction of corruption, censorship, and nuclear proliferation—loom large and difficult decisions must be made in Washington regarding an overall approach to foreign policy.

NECESSARY PARTNERS

THE GLOBALIZATION of the world economy has vastly complicated the links between Washington and American business. On one hand, the resources of the American government—money, people with adequate global experience—are shrinking, and the role of American firms as de facto agents of foreign policy is expanding. The spread of business across borders may be the most powerful force operating in the world today. On the other hand, the influence of American

business, by any measure substantial, does not lack great competition. If Boeing does not play by China's rules, Airbus will. If AT&T does not meet Brazilian requirements, Alcatel would be happy to help.

Globalization, and all the strategic alliances and cross-border mergers it has spawned, raises another question—the definition of an “American” firm and the criteria by which Washington should decide which firms to help. For example, does Northern Telecom, a Canadian firm with substantial manufacturing operations throughout the United States, deserve the same support for overseas contracts from the American government as, say, Bell Atlantic?

Despite shifting international sands, the government and the business community need each other to achieve their goals. The hallmark of involvement with big emerging markets is that American business depends on Washington's help to liberalize trade, protect intellectual property, remove regulatory barriers, and encourage continued economic reform. It needs the government's help to win major contracts in the many countries whose governments award the deals and where French, German, or Japanese firms are getting help from their governments. Small and medium-sized firms are also major consumers of information on foreign markets from the Commerce Department's global network and from U.S. embassies around the world.

And Washington needs business more than ever to reinforce its goals. The executive branch depends almost entirely on business for technical information regarding trade negotiations, all the more so as the Washington bureaucracy is downsized even as it negotiates an ever broader range of issues. In all emerging markets, America's political and economic goals depend largely on the direct investments in factories or other hard assets that only business can deliver. It can make an enormous difference, too, if American business executives reinforce Washington's human rights efforts with private diplomacy as well as public actions to improve working conditions.

Moreover, there are areas of great strategic significance where U.S. diplomacy and business could not succeed without each other. Take, for example, the Caspian Sea region, home to the world's

Government and business need each other to succeed.

largest underdeveloped oil and gas reserves in the newest and most fragile independent states of the former Soviet Union. Vulnerable to pressure from Russia, Iran, and, potentially, China, the countries of this region require heavy Western investment and visible political support. As the role of business in America's foreign policy grows, so will the public scrutiny. The frenzy of media attention on the possible connection between campaign contributions and policy favors may cause escalating concern about the overlapping circles of public and private interests. This is all the more reason to devise a framework that measures up to America's requirements and the highest standards.

A WORKING FRAMEWORK

BARRING A militarily aggressive Russia or China, odds are that commercial considerations will play an ever greater role in American foreign policy throughout the second Clinton administration and into the next century. Much of our foreign policy could look more like it did during the nineteenth century and up until Pearl Harbor, when, for the most part, commercial goals were paramount. Government and business should consider the following framework to help them work together for their mutual benefit.

First, the administration needs to reach a renewed consensus about the centrality of commercial interests in foreign policy. Many in the administration, Congress, and the broader foreign policy community still believe that commercial policy is a tool of foreign policy, when it should more often be the other way around—the United States should use all its foreign policy levers to achieve commercial goals.

An aggressive commercial strategy would reignite the fervor for trade liberalization during the administration's first two years, when NAFTA and the Uruguay Round were concluded and the Asia-Pacific Economic Cooperation forum was energized. The administration would pull out all the stops to enlarge NAFTA, starting with Chile. It would redouble efforts to keep APEC trade liberalization moving ahead. It would extend itself to get China into the World Trade Organization. It would revive high-profile trade missions to Asia and Latin America. It would not let up on Japan, where markets are still

difficult to penetrate. All this might sound unrealistic at a time when the president and Congress are preoccupied with domestic issues, but it is no more ambitious than the course that the Clinton team embarked on a few years ago, and nothing about long-term U.S. interests has changed to make it the wrong one.

Second, the administration, together with business leaders, needs to build a stronger constituency for open global markets in the business community and in Congress. Although the Clinton team was successful in gaining passage of NAFTA and the Uruguay Round, the first vote required a huge political push, difficult to repeat time and again, and the General Agreement on Tariffs and Trade treaty received lukewarm support from the business community. Subsequently the administration has had a difficult time getting congressional authority to effectively negotiate an expansion of NAFTA, let alone a sequel to the Uruguay Round. Members of Congress are not elected these days because of their global outlook; local hot-button issues predominate. I saw this first-hand throughout 1995 when an attempt to drum up congressional support for export promotion found little interest in and very little understanding of the connection between exports and community issues like jobs. Business leaders, for their part, are asleep at the switch. They take for granted that the administration—any administration—will always be around to help, without much effort on their part. I saw that in 1995 when the Republican Congress tried to dismantle the Commerce Department, and corporate America yawned.

In short, the globalization of the American economy is weakening the political consensus for free trade. With growing trade deficits, possibly exacerbated by a rising dollar and escalating imports from China and Japan, the situation may get worse. The administration and business leaders should make common cause and get ahead of the political wave of apathy, at best, or protectionism, at worst. This requires a prolonged campaign, not a one-shot strategy aimed at one particular trade agreement. Amid the budgetary issues and scandals in Washington, such plans are not high on anyone's agenda.

In building support for an aggressive policy for more open trade, the administration and the business community must forge a consensus on the growing necessity of multilateral approaches and educate Congress on why they have become so important. In a globalized economy, the

value of bilateral pressure is diminishing for both opening markets and enforcing agreements. There are too many alternative suppliers to U.S. companies, and too many ways to enter the American market by using foreign subsidiaries or rerouting products through third markets. If we want China to respect global trading rules, pressure not just from Washington but also from Europe, Japan, and even Southeast Asia will be needed. The same argument can be made for everything from intellectual property rights in Argentina to better access for foreign investors in the Indian insurance sector. Congress and large segments of the American public remain skeptical of the WTO on the grounds that we are surrendering sovereignty. But global free trade, which the United States has promoted for a century, requires acceptance of international rules and procedures, and that must be explained cogently.

Third, the administration and business both need a better understanding of the interaction of business interests and human rights. The administration ought to pledge not to legally link trade and human rights except under a multilateral umbrella, such as the former embargo against South Africa's apartheid government. The reason is simple: that is the only way it can work. Unilateral sanctions only put U.S. firms at a major disadvantage vis-à-vis their rivals. At the same time, Washington should keep up every other conceivable means of political pressure, public and private. These include pressure in U.N. organizations and support for nongovernmental human rights organizations that are uncovering and publicizing abhorrent conditions around the world. In return, the business community ought to apply pressure behind the scenes and make efforts to improve the lives of its employees and the foreign communities in which they operate. Expanding health benefits for local employees, ensuring workplace safety, giving technical assistance to local governments—none of this is new to U.S. firms, but the level of activity could certainly be higher.

Human rights encompasses fair labor practices. Companies and the administration can work together to fight exploitation of child labor and other violations of core standards embraced by the International Labor Organization. The recent agreement among sports companies like Nike, Reebok, and Adidas to self-police their operations in the developing world could be replicated in other relevant industries. The U.S. government and American business associations could

award prizes for American companies that set the finest examples of maintaining standards for their workers. Highlighting these best practices in a visible way—like the Malcolm Baldrige awards given to American companies for excellence in products and services—would help. Washington should work to extend these standards by pressing other governments, the World Bank agencies, and other international institutions to work toward the same goals.

Most CEOs with whom I have been involved over the past several years would have little trouble agreeing in principle with these relatively mild recommendations on human rights and labor. I remember several private conversations with the late Secretary Brown and dozens of top business executives during which we in the administration were trying to gauge support for various voluntary codes of conduct. The executives promised full support not only with regard to their companies but also concerning the policies they would push in their trade associations. Very little happened, however, once lawyers, boards of directors, and trade associations got into the act. The problem is translating intentions into action.

America's economic interest in improving the lives of people in emerging markets goes well beyond enhancing their incomes so that they can purchase more products and services—important as that may be. The issue is the rule of law. If foreign governments do not seek to protect basic human rights, they are more likely to ignore or circumvent other basic laws of great commercial relevance, such as those that protect intellectual property rights, combat corruption, and mandate the disclosure of critical financial information. The arrogance of governments that oppress their people transfers easily to other areas.

American businesses historically have not been on the progressive end of change abroad, preferring stability to the unknown. But there will be no stability in the big emerging markets in the years ahead. Change will be constant and sometimes explosive. The American government and business need to ride this tiger together, not by opposing change, but by trying to move with it, even helping lead it.

Fourth, Washington and the business community need to make peace regarding the use of unilateral export controls for foreign policy purposes. The first Clinton administration made great progress in reducing the number of products subject to controls, particularly in the area of

telecommunications and computers, and more can be done. At the same time, over the last four years there has been a dramatic increase in laws and executive actions authorizing unilateral economic sanctions for foreign policy purposes. Such controls, sanctions, and embargoes are ill-advised in a world where American firms no longer have monopolies on capital or technology. Early on, for example, the Clinton administration imposed unilateral sanctions on the sale of satellites to China. U.S. companies were hurt, but there was no impact on Beijing's behavior. Today the United States imposes unilateral sanctions on Cuba. The Overseas Private Investment Corporation (OPIC) and the Trade Development Agency, which provides financing for project feasibility studies, are banned from operating in China. There is a good chance that sanctions fever will get out of control without a more sensible reaction from Washington. Individual states like Massachusetts and New York are already flirting with penalties for companies doing business with Burma and Indonesia. The following principle should govern Washington's commercial strategy: Every effort should be made to negotiate multilateral sanctions when necessary, and there should be no unilateral sanctions unless national security is at stake. Moreover, the administration should prepare an annual report analyzing the impact of sanctions on other countries and American companies.

Fifth, the administration and business need to work together to deal with congressional and broader public concerns about commercial diplomacy, including charges of undue foreign influence and corporate welfare. Illegal campaign contributions from Indonesians, Thais, and other foreign nationals are a scandal and need to be eliminated by much tougher campaign contribution laws. There are several other ways to ensure that commercial diplomacy is conducted according to the highest standards of integrity. But the response to any current inadequacies must be measured: we do not eliminate our police forces or our labor unions when there is a need for internal cleanup. By all means, let's upgrade our commercial diplomacy, but not destroy it.

For starters, the export promotion agencies must become professionalized along the lines of the State Department and the Treasury Department. This means fewer political appointments and more scrutiny of professional—as opposed to purely political—qualifications.

Since the Nixon years, the Commerce Department has been a dumping ground for patronage; that must end.

In addition, the legal staff of the Commerce Department ought to include a three-person task force of career attorneys responsible for vetting all members of government-sponsored trade missions and all overseas projects that receive federal support. All interventions with a foreign government by a cabinet or subcabinet officer on behalf of an American firm would also fall under their purview. This group would report to both the general counsel at the Commerce Department and the secretary of commerce in his capacity as chairman of the Interagency Trade Promotion Coordinating Committee.

Concerning allegations of corporate welfare, the facts speak for themselves. Administration studies have shown the huge bang for the buck from small amounts spent to promote exports. Together with the business community, the administration must make the case for export promotion. They also should be relentless in pointing out the enormous sums spent by America's competition. The federal budget for export promotion has declined from \$4.5 billion in 1994 to \$2.8 billion in 1997. Meanwhile, all U.S. competitors devote more money and more staff, relative to the size of their economies, than the United States does. In 1995 France spent ten times as much as the United States on export promotion as a percentage of GDP. In 1996 Canada outspent Washington by a factor of ten when it came to government-backed trade missions. Japanese assistance, which includes directing large sums of aid for infrastructure development through procurement contracts for Japanese firms, dwarfs anything the United States would contemplate.

Sixth, it is necessary to change the organization of business-diplomatic interaction in the United States. To help American firms compete, the administration should consolidate trade financing agencies like the Export-Import Bank and OPIC into one streamlined but powerful government-supported trade and investment bank. This should be combined with the Commerce Department's Advocacy Center, the economic "war room" that helps American firms win foreign projects.

Commercial diplomacy
should be improved,
not destroyed.

In addition, there needs to be a quantum leap in the number of Foreign Service officers who understand commercial matters. Not long ago, the U.S. embassy in Brazil had six commercial officers and 42 dealing with political and military issues. A similar pattern could be found in many big emerging markets. Here is an area where business and government could cooperate to educate a new generation of qualified men and women to represent critical American commercial interests abroad.

Seventh, the administration and business should assist in the design and implementation of political and economic reforms in the big emerging markets. If the global experiment in democratic capitalism goes awry, the international landscape will be ominous for the United States. Washington and American firms should reinforce one another's advice to foreign governments, pooling their efforts in areas like regulatory policy and upgrading education and training. The administration and American firms need a much deeper dialogue on what it will take for businesses to build a presence in the emerging markets, weather the inevitable storms, and deal with the commercial intelligence gathered from public and private sources.

Finally, the administration needs to be clear about where the country's interests may diverge from the traditional interests of the business community. All foreign policy does not have commercial ends; the interests of General Motors in the world economy are not always the interests of most Americans.

Washington must be discriminating, for example, when deciding which American firms to support abroad. In an age of companies that manufacture in many countries or have multiple strategic alliances with firms of other nationalities, it is often difficult to decide what is an American firm for purposes of U.S. government support. A set of working criteria is required. In order of priority, the administration should help: firms whose incremental overseas activities would add jobs in the United States; firms whose profitability would contribute to the U.S. economy; firms whose incremental activity would add to high-quality technological research in the United States; firms that are incorporated in the United States.

Suppose two American firms are bidding on a project in Turkey. One is incorporated in France but has a subsidiary in the United States. If it wins, it promises to add 20,000 jobs in its U.S. subsidiary

to produce supplies for the project. The other is an American firm that is a household name. However, it will source the project from its affiliate in Poland. Although its global profits would increase, it would add no new jobs in the United States. In this case, the U.S. government should help the French firm.

The interests of Washington and business also diverge with respect to “pariah states” such as Iran, Iraq, and Libya. In these cases there ought to be a full-court press on our allies to join in economic sanctions. Not only would that make for sound foreign policy, it would also keep American firms from losing ground to their foreign counterparts. In the past, Washington has not always worked skillfully to gain allies’ cooperation. The abruptness with which unilateral sanctions on Iran and Libya were announced in 1996 and the take-it-or-leave-it approach of the secondary boycotts in the 1996 Helms-Burton legislation are not the best ways to get allies on board. When there is an overwhelming national security need to go it alone, the government should make a more systematic effort to consult with American firms about ways to implement a policy that inflicts minimum damage on them.

As the United States experiments with new relationships between government and the private sector at home, it is also time to rethink the connections between foreign policy and business and build a more deliberate and far-reaching partnership. The first Clinton administration made a good start, and it would be a shame not to build on it. What is required is more than a sound bite, more than trade agreements that can be cited in a press release, more than the occasional victory for an American firm. The right mindset requires unrelenting and cooperative leadership from the highest levels of government and business. The success of America’s foreign policy and economy depends on it. 🌐