A U.S. Foreign Policy for Submerging Markets

Why Obama needs to step up U.S. investment in emerging markets, including trade missions, scientific and cultural exchanges, and military cooperation.

BY JEFFREY E. GARTEN | SEPTEMBER 14, 2015

Several years ago, I interviewed Andy Grove, then-chairman of Intel Corp. and one of America's legendary business leaders. The U.S. economy was in its post-Enron downturn, and Grove was explaining that Intel would be stepping up its R&D investments in new technology. That pattern of doubling down on long-term bets, such as new plants for producing state-of-the-art microprocessors, especially when rivals were cutting back on them, was one of the secrets of Intel's phenomenal success in overcoming fierce Japanese competition.

When it comes to emerging-market nations, Grove's strategy should be a template for the Obama administration. Investing in these countries now, in terms of stepped up diplomacy, including closer cooperation agreements in several fields from trade to cultural exchanges, would lead to big dividends, not only while emerging markets are experiencing severe problems, as they are now, but when they come out of them, as they surely will.

Emerging markets are being clobbered by several trends, including the downturn in China and the country's diminishing appetite for commodity imports, the near certainty that the Federal Reserve will raise interest rates this fall and suck capital into America from the rest of the world, and a major slowdown in global trade. Those emerging markets that are oil exporters are also being walloped by low petroleum prices. Moreover, the situation surrounding these nations could get worse before it improves. On Aug. 31, Neil Shearing, a chief economist at Capital Economics, told the *Financial Times* that the growth models that worked for the big emerging markets are broken. Harvard economist Dani Rodrik wrote on Aug. 13 that only fundamental long-term reforms of emerging-market policies would suffice to pull the countries up in any sustained way. Experts are arguing whether the crisis in emerging-market nations is acute or chronic, not whether a crisis exists in the first place. But as I recently detailed in these pages, it would be foolhardy to assume that these countries, as a broad group, will not remain central to the global economy, still accounting for close to half of world economic activity. It is also a big mistake to ignore the fact that emerging markets will be critical players in the world's ability to deal with monumental global challenges such as terrorism, climate change, refugee resettlement, and cybersecurity. And so it makes sense to ask, how should the United States now respond as emerging markets enter a submerging phase?

A rotten environment in Washington

From the standpoint of America's long-term interests, the atmosphere in Washington is horrible for looking at these problems. The foreign-policy agenda is already jammed with critical issues, such as the implementation and follow up to the nuclear treaty with Iran, the war against the Islamic State, tensions with China, the imminent trade agreement called the Trans-Pacific Partnership, and much more. The United States is in the early stages of a long election season where a number of candidates are hearing the siren call of populism, much of it tinged with xenophobic themes. Congress is paralyzed by partisan gridlock and is again talking about shutting down the government . U.S. President Barack Obama is probably preoccupied with solidifying his legacy by protecting and enhancing what he has already achieved, rather than understaking big, new initiatives. The odds are therefore exceedingly long that the administration would give the right sort of attention to emerging markets. But on the outside chance that this judgement is wrong, what kind of agenda would reflect America's vital long-term interests in wide parts of the developing world?

Two caveats. Of course, emerging markets comprise a wide variety of nations, from big powerhouses such as China to smaller but important ones like Chile. India is growing at over 7.0 percent annually, and Brazil is in recession. Mexico has decent prospects; Venezuela is an economic and political basket case. I described a few distinct categories in my previous article, but for our purposes here, think of emerging markets as those nations between the advanced industrial countries and the poor developing ones.

Also, even though what I am advocating is exceptionally modest, requiring no sharp turns in policy, no major international agreements, and no congressional appropriations, it is unlikely to be instituted unless Obama goes out of his way to do so.

A revitalized framework

Here is what the president should do:

Get organized. The president should bring together his senior advisors from multiple areas — State, Defense, Treasury, Commerce, etc. — and make it clear that just because of escalating economic problems in emerging markets, the United States should not slack off on its involvement in these countries. To the contrary, it has a deep interest in working with them for the long term. U.S. foreign policy should not be run like a short-term mutual fund. The stakes are much higher than current returns or even just economic benefits. They involve sustaining the trend toward more open political systems and more open economies, not to mention the need for cooperation from emerging markets on increasingly important global issues. What's more central to the United States than that? Obama should emphasize that it is easy to befriend emerging-market nations when economic times are good and all manner of American investment is flowing into these countries — and when both the United States and emerging markets are engaged in a joint-sum game, as was the case over the last decade or so. It's much harder when the tide goes out, but arguably more important if the goal is to solidify long-term relationships.

The first thing he should do is commission an analysis chaired by the National Security Council on the situation in emerging markets over two time frames — the next five years and the next ten years — focusing on scenarios, U.S. interests, and policy options. To take one example, the study should examine the significance of a slowdown in China's imports from the United States, not just directly but indirectly through the extent that Beijing's problems are radiated throughout many other emerging markets or the impact China's reduced trade could have on critical worldwide supply chains. A different kind of important question to look at would be the implications in Latin America of a long political and economic meltdown in Brazil.

Double down. The president should not wait for that study to be completed to instruct the State Department to inform all ambassadors to emerging-market nations to propose revitalized bilateral agendas for their respective countries. He should emphasize the importance of talking and listening, rather than proposing bold new ideas and trying to improve things at the margin. Forget aid or trade concessions — that won't happen at this time, not the least because of the environment in Washington — but there could be in-depth discussions about economic policy options, perhaps involving illustrious American economists or former highly respected government officials; or infrastructure projects that multilateral banks could help underwrite; or discussions about military cooperation or cultural exchanges, where these are relevant. For some countries, officials from the Federal Reserve could visit periodically, perhaps along the lines I suggested in a previous article about an enhanced foreign policy for the Fed. If there are opportunities to establish new bilateral councils on scientific and technological cooperation, that, too, could be important.

Bring in new blood. Part of a new, elevated diplomatic engagement could involve appointing special envoys who have stature and experience to be effective in building relationships with officials in emerging markets. Each could be assigned a major project, either to add more links to specific countries or to contribute to other tasks, such as boosting multilateral strategy. Here are just some who the administration would be very fortunate to enlist: former Treasury Secretaries Henry Paulson, Jr. and Robert Rubin; former World Bank President and Deputy Secretary of State Robert Zoellick; former Federal Reserve Chairman Ben Bernanke; former Deputy Secretary of State Strobe Talbott; and retired Gens. David Petraeus and Stanley McChrystal. There are many more, each of whom could multiply the U.S. presence and add gravitas to the goal of showing American concern.

Work with CEOs. Obama should ask the Treasury and Commerce Departments to get in close touch with America's biggest and most influential multinational corporations and figure out a way to better ascertain what they are thinking about in regards to their long-term strategy for emerging markets. Why not expand administration-led trade missions to emerging-market nations? Washington cannot determine corporate plans, of course, but the very notion of comparing notes and also of making it clear that the U.S. government does not intend to abandon emerging markets — on the contrary, saying it plans to intensify relationships — might tilt U.S. corporations to consider either maintaining their longer-term investments that they may be reassessing or even expanding commitments to hire and train local employees, and to expand R&D investments in host countries.

Renew legislation to support the Export-Import Bank. The Obama team should pull out all stops to renew the legislation allowing the Export-Import Bank to do its work, and Obama should instruct it and other trade-and-investment financing agencies to put together innovative packages that can help American firms continue to pump funds into selected emerging-market nations.

Identify the most important countries. The administration should select a handful of emerging-market nations that are of unique importance and make sure they are singled out for special treatment. This handful would include countries whose impact on global and regional trade is most critical, those which are crucial to concluding global treaties, such as the upcoming accord on climate change, and those which are essential to fighting terrorism. This list should not be made public, but it would guide Washington's priorities in terms of political attention and resources. China, of course, would meet this threshold, and so would India, Brazil, Turkey, and Indonesia.

Don't forget the multilateral agenda. The administration should redouble efforts to move on a few issues that are important to emerging-market nations in the multilateral arena. Top of the list is pressing Congress to pass legislation that would allow the International Monetary Fund to give the emerging world greater voting power. Another important move would be for the administration to join the new Asian Infrastructure Investment Bank, to give the sense that the United States wants to be part of the building of roads, communications systems, and other such projects in Asia.

A good way to compete with China

In the scheme of big foreign-policy initiatives that have influenced the course of history — the Marshall Plan, Nixon's visit to China, Camp David, etc. — what I am advocating is admittedly small-bore and soft policy. But it's the best we can do right now, and at a time when emerging-market nations are down and out, a policy framework that gives America positive direction is better than nothing, and at such a time, a little may go a long way. After all, the stakes in America's deep, constructive, and sustained links to emerging markets are enormous.

Besides, Obama keeps pointing to China as a U.S. rival for global leadership. For example, he has been selling the Trans-Pacific Partnership in large part on the grounds that the United States is competing with China around the world to write the trade rules for the 21st century. In working closely with emerging markets now, especially at a time when China has its own problems and is unlikely to have much credibility, the United States would be helping to ensure the prominence of clear American leadership in a very broad swath of nations around the globe and on the wide set of challenges in which they play a major part.

In the interview with Andy Grove that I cited earlier, he said one other thing: A CEO must have a gut instinct for what will emerge from a downturn. That intuition helps to decide what bets to make, even though visibility into the future remains cloudy. By deepening America's focus on emerging markets now, President Obama and the Washington establishment would be gambling on the time frame for those nations' recovery but not on the eventual outcome.

Over the last two decades, emerging markets have been written off time and again — after Mexico went into the tank in the "Tequila crisis" of 1994, after Asia blew up in the late 1990s in the "Asian financial crisis," and after the subsequent financial debacle that began in Russia when Long-Term Capital Management imploded and sent financial shock waves around the world. But always they rebounded. It will happen again.

SAUL LOEB/AFP/Getty Images