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# **U.S. Foreign Policy: The Growing Role of Economics**

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[The following remarks were presented to the Baltimore Council on Foreign Affairs, in Baltimore, Maryland, April 3, 2002.]

First, a Personal Note

This is an exciting time to be working in foreign affairs. We are in an era when foreign policy issues are very much in public focus. As Secretary Powell says, the Department of State is “the first line of offense” in promoting American interests around the world. People care about what the Department of State does, and it is due in no small part to the work of you here in the Baltimore Council and the active participation of U.S. citizens in foreign affairs through similar organizations around the country. Thanks to your lively, informed interest in international affairs, we are able to keep alive the public debate that ensures our foreign policy reflects the best interests and the will of the American people.

I want to talk with you tonight about the role of economics in our foreign policy, and especially what we’re doing in the Department of State’s Bureau of Economic and Business Affairs. I would like to begin with some general observations about the rich mixture of issues we are involved in, and then hone in on a couple of specific topics that are very much in the news today.

## **The War on Terrorism**

One of our highest priorities is combating terrorist financing choking off the resources that make horrific events like those of September 11, 2001 possible. Working closely with the Department of the Treasury, we have designated and blocked the assets of 192 organizations and individuals because of evidence linking them to international terrorism, the Secretary of State placed one organization on this list just last week. This has been an intense diplomatic effort, and as of now I can report to you that 150 nations are also taking action to prevent money from reaching terrorists. The U.S. has frozen some \$34 million in terrorists’ assets, and the rest of the world has blocked an additional \$70 million.

While we are engaged in the effort to stifle terrorist funding, we are at the same time working with the Afghan Interim Authority and the international community to help Afghanistan rebuild its shattered economy. The United States has pledged nearly \$300 million in this fiscal year alone to help Afghans with relief and reconstruction, focusing on health, education, food and agriculture, water and sanitation, refugee relief, transportation and other vital areas. It is important to remember that this official assistance, of course, is in addition to the humanitarian assistance that we have provided the Afghan people for decades over \$1 billion since 1979, more than any other single donor and which we continue to provide. And of course there are the private donations and other expressions of support by Americans our country’s typical response to a people in need.

Let me switch to a broader focus. A strong economy is the foundation of our national security. When we promote free trade and foster global growth, our economy grows and we prosper. Along with that, we have seen that countries which enjoy healthy, growing economies tend to be the

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stable ones, contributing to regional peace. And, it will come as no surprise that these are also the countries that enjoy rules-based economic and social systems, because these promote opportunity and jobs and give hope for the future. As Secretary Powell is fond of saying, "Money is a coward it will not go where it does not feel safe" that is, it shies away from places where contracts are not enforced or where the rules are not transparent and well understood.

That is why, in Afghanistan's South Asian neighbor Pakistan, we are fortunate to be working with President Musharraf, a leader who is dedicated to a modern and moderate Islamic state. Because of that commitment, the Administration is helping find ways to promote trade and provide debt relief to Pakistan to recognize its efforts in the war against terrorism as well as its commitment to solid economic fundamentals.

Now that I have mentioned trade, let me spend a few minutes talking about it, because trade is something that really matters here in Baltimore and in the rest of the country. The following are some U.S. economic statistics.

- U.S. exports of goods and services last year accounted for eleven percent of our gross domestic product. The jobs of one of every five U.S. manufacturing workers rely on exports.
- The production of one out of every three acres farmed in this country is exported. Exports account for 25 percent of American farmers' and ranchers' gross cash sales.
- In 2000, sales of high-tech goods abroad accounted for 29 percent of America's merchandise exports.

According to Commerce Department figures, Maryland exported five billion dollars in merchandise in 2000, including about half from the Baltimore metropolitan area alone to 198 foreign destinations. About one-and-a-half billion dollars of that, or nearly one-third, were computers and electronic products. My figures on jobs are not as up-to-date as the trade data, but in 1997, 58,900 Maryland jobs depended on manufactured exports over 3 percent of the state's total private sector employment.

Trade is so important to Americans that the State Department, and the Bureau of Economic and Business Affairs especially, puts so much emphasis on negotiating the best trade agreements we can in order to open markets, reduce or eliminate trade barriers, and provide a level playing field that allows American exporters and service providers to compete fairly.

Under World Trade Organization and the *Singapore and Chile Free Trade Agreement*, we are helping pave the way for U.S. companies to invest abroad, bringing critically-needed services, including telecom and information technology, to developing countries. This facilitates other economic development by encouraging the construction of reliable communications networks. Our trade policy is based on a coordinated effort to engage with trading partners around the world bilaterally, regionally and multilaterally.

Bilaterally, together with the Office of the U.S. Trade Representative we are negotiating free trade agreements with Chile and Singapore which we hope to conclude this year. These agreements will dramatically improve opportunities for exporters to these countries and spur others to move ahead with liberalization. We are also exploring the possibility of free trade agreements with a growing number of other countries. Last year we were pleased that Congress approved a groundbreaking bilateral trade agreement with Vietnam, which not only strengthens the economic relationship between our two countries but takes a major step toward healing the social and cultural wounds that have existed for decades.

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The U.S. is also active in forging regional trade initiatives. The Department of State was a principal architect of the *2001 African Growth and Opportunity Act*, which allows the duty-free export of some 6,000 products to the U.S. from eligible African countries. President Bush has described *2001 African Growth and Opportunity Act* as “a road map for how the United States and Africa can tap the power of markets to improve the lives of our citizens.” In just one year, *2001 African Growth and Opportunity Act* has dramatically increased African exports to the United States, generated nearly one billion dollars in investment, and created thousands of jobs.

In our own hemisphere, we are forging ahead with the other democracies of the region to develop a free trade area of the Americas, which would create an open market from Alaska to Argentina no later than January 2005. *Free Trade Area of the Americas* will be the logical next step after the highly successful *North American Free Trade Agreement (NAFTA)* which has created jobs and boosted the economies of the U.S., Canada and Mexico. And, for those who are not aware of it, Canada and Mexico represent the leading export markets for Maryland exporting 11 and 17 percent, of the state’s exports, or over \$1.3 billion the fastest-growing markets as well.

The U.S. is following up energetically on existing trade agreements. The U.S. government has developed an extensive system to ensure China’s compliance with the very significant commitments it made to liberalize its economy when it joined the World Trade Organization last December. The U.S. has broad and deep dialogue with the government of Japan and with the European Union on economic, trade and regulatory issues of great importance to U.S. exporters and investors. The U.S. is working toward Russia’s accession to the World Trade Organization to bring it into the world trading system.

Globally, the U.S. is very pleased at the successful launch of the *Doha Development Round* at the World Trade Organization ministerial meeting last November. As a World Trade Organization member nations are now hard at work on turning the Doha consensus into concrete results for example, in opening agricultural markets, maintaining protection for intellectual property while enabling access to drugs for public health emergencies, and promoting capacity building in developing countries. As President Bush pointed out recently, “By one estimate, a new global trade pact could lift 300 million lives out of poverty. When trade advances, there is no question but poverty retreats.”

As with the *Free Trade Area of the Americas*, trade officials from the 144 World Trade Organization member countries have set January 2005 as the target date for concluding the negotiations for the Doha Round. It is fair to say and I am proud to say it, that the Doha Development Agenda represents a tangible example of the success that can be achieved through activist American diplomacy. So, as I said earlier, trade matters and it means jobs for Americans, we can continue to enjoy the benefits of a strong economy.

It matters for another reason, too. According to the World Bank and International Monetary Fund, trade is the single most important channel affecting growth for developing countries. The bank estimates that increasing poor countries’ access to world export markets could generate an additional \$1.5 trillion in income over ten years, and raise their annual domestic product growth rates by half a percentage point.

It is because trade is so important that President Bush has put Congressional approval of *Trade Promotion Authority (TPA)*, at the top of his economic legislative agenda. The TPA has been passed by the House several months ago and is now awaiting action in the Senate; would require Congress to vote up or down on important trade legislation, without tying it up in debates over amendments. This is terribly important to our trading partners because it means the bilateral and multilateral trade agreements they negotiate with our diplomats are the ones Congress will be asked to ratify.

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I would now like to address another issue of great importance to the U.S. Department of State and to my Bureau in particular that of international development. In truth, it is not such a large step, however, because this Administration believes trade can play a very important role in helping poorer countries escape from poverty. The international coalition the Administration so successfully built to help fight the war against terrorism will be complemented by an international coalition to fight for economic growth. The U.S. has a distinct national security interest in a strong development assistance policy. As the President said,

“Poverty does not cause terrorism. Being poor does not make you a murderer . . . Yet persistent poverty and oppression can lead to hopelessness and despair. And when governments fail to meet the most basic needs of their people, these failed states can become havens for terror.”

It is time, the President has noted, to close the divide between wealth and poverty, opportunity and misery. It is time for governments to make the right choices for their own people.

At the United Nations Financing for Development Conference in Monterrey, Mexico two weeks ago, President Bush and other world leaders gave their stamp of approval to a document which recognizes the importance of trade, investment, good governance and other factors in helping the world's poorer countries escape from poverty. A quick look at the numbers helps explain why that is important. All told, developing countries receive approximately fifty billion a year in direct assistance from the so-called donor governments. Fifty billion sounds like a lot of money, and it is, of course. But foreign investment flows from developed to developing countries total almost \$200 billion a year. Export earnings of developing countries approach \$2 trillion a year. That is where the real development money is found in trade and investment. And consider this: remittances from workers in the United States alone back to developing countries run about \$30 billion a year.

That is not to say that direct assistance does not have a role in our vision for international development, far from it. In fact, just before the Monterrey Conference, President Bush announced his intention to seek from Congress an additional \$5 billion per year over current projected levels in direct assistance to the poorest countries by fiscal year 2006 (ramping up in 2004 and 2005). Developing countries eligible for this assistance would be those, as President Bush put it, “that govern justly, invest in their people and encourage economic freedom.” The President has directed Secretary Powell and Treasury Secretary O’Neill to come up with clear and concrete objective criteria to see that these funds are used effectively. The U.S. intent is simple: the U.S. responsibility as donors is linked to developing nations’ responsibility for embracing policies of good governance, investment in human capital, and creating an enabling environment for economic growth. This is a results-oriented Administration, and President Bush has made it clear the U.S. will not provide assistance to countries that do not accept the challenge to enact sound policies, build sound institutions, and take advantage of the entrepreneurial spirit in their own societies.

One concrete outcome of the Monterrey Conference was an agreement by the U.S. and China to sponsor jointly a conference on foreign direct investment and development next December. This conference will follow up on the themes of the Monterrey meeting, and you will be hearing more about this as planning progresses.

I believe we are at a turning point in the way we view development. The kickoff was last year’s launch of the *Doha Development Round*. Doha engages developing countries more directly as negotiating partners in the World Trade Organization and will help liberalize trade not just between developing countries and developed country markets, but among developing countries, where we anticipate strong growth. The successful Monterrey conference was the next

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in a series of important events. That will be followed by the World Food Summit next June, in Rome. There, we will be working to come up with programs to raise agricultural productivity and reduce poverty programs that will feed the 800 million people in the world who remain poorly nourished and whose lives are cut short by poverty. We will be looking at ways that better define property rights; create conditions for improvements in infrastructure, electricity and communications; and provide information about science and new technology especially agricultural biotechnology that can help increase productivity.

A few weeks after the World Food Summit, the G-8 Summit in Canada will address global economic growth and try to agree on an action plan on Africa to boost African agricultural productivity and capacity building. And then, in August and September, we will strengthen further this results-oriented vision for poverty reduction at the World Summit on Sustainable Development in Johannesburg, South Africa. There we will work to develop partnerships among nations to balance social and economic growth with environmental stewardship.

The private sector of the U.S. provides the capital that fuels economic development and helps create the conditions that improve the quality of life. In the process, American companies have become the models of good governance for many foreign businesses that want to succeed in the global marketplace as well as in their own local marketplaces.

Of course, the first responsibility of any corporate executive is to the shareholder. But American companies also recognize that, to be successful, they must do more than simply sell a product. They have to become part of the community as well. U.S. firms have this kind of commitment. Each year, the Department of State presents awards for good corporate leadership and involvement in local communities. This past year, awards went to Ford Motor Company in South Africa for its HIV/AIDS program and to a small energy company in Ho Chi Minh city, which is bringing low-cost solar electricity to the countryside.

The Secretary of State reminds new ambassadors before they go overseas that their main tasks include assisting American business. We work to ensure that American companies are judged fairly on their merits in the competition with companies from other countries. And where there are problems, we work to help them redress their grievances.

To level the playing field for U.S. firms and to combat the scourge of corruption, we strongly support the *Anti-Bribery Convention of the Organization for Economic Cooperation and Development* which embodies the commitment of Organization for Economic Cooperation and Development member countries, and several others as well, to eliminate bribery of public officials by companies based in signatory nations. In addition, we back regional initiatives to combat corruption, such as the *Inter-American Convention Against Corruption* developed by the Organization of American States. These initiatives are part of our larger goal of development, which calls for countries and companies to institute good governance, transparency and rules-based trade play to promote prosperity at home and expand economic opportunities abroad.

## **Conclusion**

Today, perhaps more than at any other time in history, economics is inextricably part of U.S. foreign policy. Trade and investment directly affect U.S. economic well-being; they have a direct impact on U.S. national security.

There are many other ways this manifests itself in the work of the Department of State; for example, the dozens of Open Skies agreements that have been negotiated or are in process to make air travel safer and easier; agreements to broaden the reach of the internet and facilitate

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international telecommunications; diplomacy designed to ensure the reliability of America's energy supply and to protect intellectual property.