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Crafting Economic Strategy

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"It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace."

So said Secretary of State George Marshall in a speech at Harvard 65 years ago this month that launched what came to be known as the Marshall Plan. It took Marshall fewer than 1,500 words—commonsense words, with little soaring rhetoric—to make the case for deploying U.S. economic might in support of rebuilding Europe. A military man, Marshall nevertheless understood that economics was an essential tool of American statecraft.

In the six decades since the Marshall Plan, U.S. economic power has been an implicit feature of U.S. foreign policy, but rarely so consciously or strategically applied. Successive administrations have leveraged the large, open U.S. market to obtain trade concessions here or sprinkled aid to win friends there, but for the most part foreign policy has revolved around military strategy and high diplomacy.

Upcoming Events

- **June 27–28: The South China Sea and Asia Pacific in Transition, CSIS**
- June 28–29: APEC Senior Finance Officials' Meeting
- June 28–29: European Council Meeting
- July 2–10: 13th Round of Trans-Pacific Partnership Negotiations
- July 16–18: APEC Meeting of Ministers Responsible for the Environment
- **July 25: Economic Statecraft with Jake Sullivan, Director of Policy Planning, U.S. Department of State, CSIS**

Since assuming office as secretary of state at the start of the Obama administration, Hillary Clinton has made a determined effort to once again "put economic statecraft at the heart of our foreign policy agenda." She has launched an ambitious initiative to give more prominence to economic objectives and tools in foreign policy and to improve the State Department's capabilities in this area.

Clinton's early interest in economics was driven by several considerations. In part, she was acting on a political instinct that economic issues would dominate Obama's term in office, as the country dug out from the worst financial crisis since the Great Depression. To be a player in the Obama Cabinet, she reasoned, State had to bring something to the table to help the president meet his top priority of restoring American growth and jobs.

Larger forces in the world have also impelled a greater investment in economic statecraft. The center of gravity of the global economy has shifted over the past decade from the advanced democracies of North America, Europe, and Japan toward emerging countries such as China, India, and Brazil. As Clinton said in the last of four major speeches on economic statecraft in 2011, these emerging players are seeking to gain influence more by amassing economic power than by building armies. Partly as a result, she argued, while the first decade of the new millennium was one in which the United States was preoccupied with the world's greatest dangers, "in the decades ahead, our foreign policy must focus just as intensely on the places where we have the greatest opportunities."

In seizing these opportunities, Clinton could only envy the overwhelming economic preeminence of the United States enjoyed by her postwar predecessor Marshall. America's large market and technological prowess remain formidable, but cyclical economic weakness, longer-term structural challenges, and severe fiscal constraints have combined to undermine

Crafting Economic Strategy (continued)

U.S. leverage. This requires State to be more nimble, strategic, and creative in its diplomacy.

As Clinton has noted, economic statecraft is a two-sided coin: using diplomacy to promote U.S. economic interests and using the tools of economics to support U.S. foreign policy objectives. On the first, there is considerable room for State to "up its game," including making better use of its network of embassies and other missions around the world to promote U.S. exports, growth, and jobs.

The flip side of the coin—making more strategic use of economics in advancing foreign policy objectives—will be a taller order. State starts at a disadvantage to other agencies such as Treasury and Agriculture, which have greater substantive expertise as well as growing capabilities in a wired world to carry their domestic economic mandates into the international space. But State has one thing other agencies do not: "reach." With a presence in more than 180 countries and an ability to operate across the whole of government and society within those countries, State has its own unique value proposition in international economic policymaking. But it needs to do a much better job of exploiting this advantage if it expects to be a real player.

To her credit, Secretary Clinton seems to understand that it will take not only more resources and formal economic training to enhance State's economic work; a wholesale cultural shift is required. She has laid out a range of initiatives to promote this change, including updating U.S. foreign policy priorities to put more weight on economic opportunities, beefing up State's commercial diplomacy capacity, and—perhaps most important—creating better incentives for State officers to excel at economics. She declared June 14 "Economic Statecraft Day" and ordered U.S. missions around the world to do their part to highlight the new focus.

Americans should want a State Department that is economically literate and able to respond more effectively to shifting economic forces in the world. But the institutional hurdles are high, and it is not clear whether an agency steeped in traditional diplomacy can reinvent itself as a serious player on economic policy. Clinton and her team are very aware that they have only six months to make her initiative stick and burnish her legacy as Marshall's natural successor. ■

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Simon Says...

Secretary Clinton has put some high-level firepower behind her economic statecraft initiative. Deputy Secretary **Tom Nides** leads the task force coordinating the human resources, commercial diplomacy, and other strands of the initiative. State's under secretary in charge of economic affairs, **Bob Hormats**, has been given two new assistant secretary slots to handle energy and environment issues, adding to the long-standing assistant secretary for economic and business affairs. The nominee for the energy post, **Carlos Pascual**, former ambassador to Mexico, is still awaiting confirmation by the Senate. In an innovation drawn from the first Quadrennial Diplomacy and Development Review (QDDR)—Clinton's comprehensive 2010 plan for overhauling State's operations and culture—**Heidi Crebo-Rediker** was hired away from the Senate Foreign Relations Committee to serve as the State Department's first chief economist. And providing intellectual coherence to the initiative is Clinton's one-man brain trust and director of policy planning, **Jake Sullivan**.

One innovation State might consider to provide sustained heft to its economic statecraft initiative is to dedicate one deputy assistant secretary slot in each regional bureau to economic affairs. Currently only the Western Hemisphere bureau has such a position, though the ambassador to the Asia-Pacific Economic Cooperation forum (APEC) effectively doubles as chief economic officer for the East Asia bureau. At a minimum it would seem wise to formally elevate this latter slot, given the economic importance of that dynamic region.