



JULY 2014

AUTHORS

Robert A. Pollard

Gregory N. Hicks

Economic Statecraft Redux

*Improving the U.S. State Department's Effectiveness in
International Economic Policy*

*A Report of the CSIS Simon Chair in Political Economy
and Scholl Chair in International Business*

CSIS

CENTER FOR STRATEGIC &
INTERNATIONAL STUDIES

Economic Statecraft Redux

Improving the U.S. State Department's Effectiveness in International Economic Policy

Authors

Robert A. Pollard

Gregory N. Hicks

A Report of the CSIS Simon Chair in Political Economy
and Scholl Chair in International Business

July 2014

CSIS | CENTER FOR STRATEGIC &
INTERNATIONAL STUDIES

About CSIS

For over 50 years, the Center for Strategic and International Studies (CSIS) has worked to develop solutions to the world's greatest policy challenges. Today, CSIS scholars are providing strategic insights and bipartisan policy solutions to help decisionmakers chart a course toward a better world.

CSIS is a nonprofit organization headquartered in Washington, D.C. The Center's 220 full-time staff and large network of affiliated scholars conduct research and analysis and develop policy initiatives that look into the future and anticipate change.

Founded at the height of the Cold War by David M. Abshire and Admiral Arleigh Burke, CSIS was dedicated to finding ways to sustain American prominence and prosperity as a force for good in the world. Since 1962, CSIS has become one of the world's preeminent international institutions focused on defense and security; regional stability; and transnational challenges ranging from energy and climate to global health and economic integration.

Former U.S. senator Sam Nunn has chaired the CSIS Board of Trustees since 1999. Former deputy secretary of defense John J. Hamre became the Center's president and chief executive officer in April 2000.

CSIS does not take specific policy positions; accordingly, all views expressed herein should be understood to be solely those of the author(s).

About the CSIS Simon Chair

The William E. Simon Chair in Political Economy leads the Center's work on global economic growth, governance, and statecraft, with a particular focus on the dynamic Asia-Pacific region. Under the direction of Matthew P. Goodman, the Chair explores a broad range of international economic policy questions, covering macroeconomics and finance, trade and investment, competitiveness, and resource issues. It also examines issues, actors, and institutions in global economic governance, including the role of the G-20, institution building in the Asia Pacific, and evolving international economic rules and norms. And it looks at how governments craft foreign economic policy at a time when international relations are increasingly defined by the pursuit of economic might.

About the CSIS Scholl Chair

Established in 1981, the Scholl Chair in International Business examines the relationship of international trade and investment to economic growth, innovation, and development. In a time of accelerating global integration and financial instability, America's role on the world stage is influenced by its ability to effectively integrate trade and international economic objectives into its broader foreign policy.

© 2014 by the Center for Strategic and International Studies. All rights reserved.

Center for Strategic & International Studies
1616 Rhode Island Avenue, NW
Washington, DC 20036
202-887-0200 | www.csis.org

Contents

Acknowledgments	IV
Executive Summary	V
Economic Statecraft Redux: Improving the U.S. State Department's Effectiveness in International Economic Policy	1
Introduction and Overview	1
State's Evolving Role in Economic Policy	2
State's Strengths and Weaknesses	5
Internal Impediments to State's Effectiveness	7
The Role of Other Agencies	9
Recommendations	11
About the Authors	14

Acknowledgments

The CSIS Simon Chair in Political Economy and Scholl Chair in International Business would like to give special thanks to our sponsors, including Promontory Financial Group and others who prefer to remain anonymous, for their generous support of this project.

We would also like to thank our colleagues in the CSIS Publications Department, led by James Dunton and Alison Bours, for their editing and design work on this report.

We are grateful to the experts listed below for their invaluable contributions to this project. By participating in an advisory group and offering comments on numerous drafts, they played a vital role in shaping the report. These experts participated in an individual capacity, not on behalf of the institutions they represent. Individual participants do not necessarily endorse all of the analysis or every recommendation.

Peter Bass
Ralph Carter
John Cloud
Gary Edson
Rod Hunter
Alan Larson
Clay Lowery
Kevin Nealer
David Nelson
Michelle O'Neill
William Reinsch
Matthew Rooney
Daniel Rosen
Ira Shapiro
James Southwick
James Wallar

Executive Summary

At a time when economics has become a more central feature of international relations, the United States needs to raise its game in international economic policy to sustain global leadership. Yet the U.S. government is not well organized at present to meet this challenge.

The State Department should have a significant role in international economic policymaking, but needs to perform more effectively in the Washington interagency process.

The personal participation of the secretary of state is essential to the success of economic statecraft.

In recent years observers frequently distinguish between State's operational effectiveness overseas—its “American embassy brand”—and its relative ineffectiveness in the Washington interagency process—its “Foggy Bottom brand.”

Overseas, State often performs above its weight, using its unrivaled presence and skills to help integrate political, military, economic, and cultural affairs into coordinated “whole-of-government” U.S. policies that cut across national and regional borders.

In contrast, State is now often perceived as underperforming in Washington. Critics believe that State's effectiveness in the interagency process is undermined by uneven leadership, divided lines of authority, lack of expertise and training, weak bureaucratic skills, and a perceived tendency toward “clientitis.”

That said, one of State's essential roles is to explain how a foreign government is likely to respond to U.S. policy initiatives, and how the United States might best influence or change the behavior of that government.

The National Security Council (NSC) should more fully integrate State into international economic decisionmaking, especially in the areas of international finance and trade, and ensure that other agencies share information and consult directly with State so that foreign policy considerations are given due weight. Likewise, the NSC should task State with providing multilateral analyses for policymakers and ensure that State's views, including from the field, get a proper hearing in time to help form an interagency view regarding specific policy decisions.

Internally, State needs to elevate the importance of economics in foreign policy, streamline its decisionmaking process, keep in place strong economic leadership, improve incentives for economic officers, and raise their qualifications and training.

The role of the under secretary of state for economic growth, energy, and the environment (E) is central. Acting on behalf of the secretary, the under secretary should ensure that the department plays an effective and coherent role in the interagency process and should closely coordinate with the deputy national security adviser for international economics and key senior officials at all economic agencies.

The E under secretary should also ensure that the administration's international economic policies are integrated into the work plans of the department's regional bureaus.

In this regard, a dedicated *economic* deputy assistant secretary (DAS) or principal DAS position should be established in every geographical bureau.

Also, economic officers should be rewarded through assignments and promotions into the senior ranks for the specifically economic work that they do, as well as their ability to master managerial, political, and other skills.

Economic Statecraft Redux

Improving the U.S. State Department's Effectiveness in International Economic Policy

Robert A. Pollard and Gregory N. Hicks

Introduction and Overview

Since the beginning of the American Republic, economic issues have been an integral part of U.S. foreign policy. The first U.S. consul in China was a merchant charged with overseeing a cargo of ginseng, cotton, and animal skins shipped to Canton in 1784. In modern times, as the United States emerged as a superpower after World War II, politicians and statesmen clearly understood that economic arrangements were a fundamental pillar of national security. The common saying of the day was, “If goods can’t cross borders, soldiers will.” U.S. leaders consciously sought to build the open and integrated markets and financial architecture embodied in the Bretton Woods institutions in order to sustain peace and stability. Thus, not only was foreign policy often designed to promote commercial interests, but economic policies were also meant to support strategic international ends as well.

In the early twenty-first century, economics is arguably an even more central feature of international relations. Driven by the Internet revolution, global supply chains, and changing patterns of energy supply and demand, the world is transforming at a pace that governments are struggling to match; it is more multipolar, more complex, more integrated, and more competitive than the United States has ever experienced in its history. U.S. competitors and strategic allies alike—Brazil, China, the European Union, Japan, India, and Russia—are seeking to amass economic power and to deploy it as a leading element of their foreign policies. In many cases, they are seeking strategic advantages through these efforts, often at the expense of U.S. interests.

In this rapidly changing environment, the United States needs to raise its game in international economic policy to sustain global leadership. Yet the U.S. government is not well organized at present to meet this challenge.

Part of the problem is the growing complexity of U.S. government decisionmaking in this area. Whereas the State Department once had a preeminent role in international economic policymaking, a multitude of agencies now play in the international space, reflecting the realities of a globalized world. This complicates the development and implementation of coherent strategies and puts a premium on disciplined interagency coordination.

The National Security Council (NSC), housed at the White House, is responsible for foreign policy coordination, but its performance on international economic policy issues

across administrations has been mixed.¹ As the NSC has concentrated more and more decisionmaking power into its own hands, it has sometimes short-circuited other agencies (and not just State). NSC personnel have become increasingly operational in foreign and international economic policy, displacing agency personnel who have traditionally led the U.S. government's international engagement. Meanwhile, the capabilities of line agencies in international economic policy making vary considerably and in some cases have atrophied.

Successful international economic policymaking is a two-sided coin: it involves using diplomatic tools to advance U.S. economic and commercial interests, and using economic policy as a strategic tool in support of better foreign policy outcomes. The U.S. government needs to do better on both sides of this coin. This will require changes to structures, processes, and mindsets in the U.S. government's interagency policymaking apparatus and in the capabilities of individual agencies.

This is the first in a planned series of reports on the U.S. government's international economic policymaking, exploring and offering practical solutions to the challenges above. This report focuses on the State Department, the premier foreign policy agency of the U.S. government and first in the Cabinet protocol order. Historically, State was a key player in international economic policymaking, but it is widely viewed to have been punching below its weight in this area in recent years. Indeed, enhancing the agency's capabilities in this area has been a key priority of the last two secretaries of state.

To explore these issues, CSIS assembled a high-level advisory group of former senior U.S. government officials who served at the NSC, the Office of the U.S. Trade Representative (USTR), and the departments of State, Treasury, and Commerce, as well as business representatives and other experts. This report offers key observations and recommendations based in part on input from this group.

State's Evolving Role in Economic Policy

Historically, the State Department played a critical role in international economic policy. State designed and oversaw major postwar economic initiatives such as the Marshall Plan and the reconstruction of Japan, which were widely seen as important as rearmament in countering the Soviet threat in the Cold War. State was responsible for international trade negotiations until the Kennedy administration, when USTR was created in the Executive Office of the President. State played a key role in the decisions to bring China and later Russia into the World Trade Organization (WTO; see box), and to apply tough sanctions against countries like South Africa and Iran.

The increasing "globalization" of previously domestic issues, from law enforcement to health and environmental policies, among others, has made economic policymaking more complex and led to the expanding presence of other U.S. agencies abroad—which in turn has affected how the State Department engages in international economic policy. Without active and enlightened leadership within the department, the natural tendency has been a gradual but discernible decline in State's influence, particularly in the

¹ Given its domestic policy focus, the National Economic Council (NEC) is not covered in this report; a future report will comment on the role of the NEC and its relationship to the NSC.

China's Entry into the WTO: Strategic Engagement with an Economic Superpower

China's astonishing transformation from an autarkic developing economy into the world's greatest trading nation posed difficult policy choices for the United States. As China opened its economy in the early 1980s, some worried that China's growing economic power would enhance its ability to challenge the preeminent U.S. strategic position in the Asia Pacific. Nonetheless, Washington policymakers recognized that the United States could reap major economic and foreign policy benefits by bringing China into the global rules-based trading system.

Thus, Washington—with significant support from the State Department—worked to bring China into the International Monetary Fund (IMF) and World Bank in 1980 and welcomed its 1986 bid to join the General Agreement on Tariffs and Trade (GATT); China eventually entered the WTO in 2001. Between 1986 and 2013, U.S.-China merchandise trade grew 70-fold to \$552 billion. After receiving \$40 billion in World Bank assistance from 1980 to 2000, China transitioned from a borrowing member of the Bank to a lender and increased its shareholdings to nearly 3 percent in the IMF and World Bank. China also invested a high percentage of its surplus dollars in over \$1 trillion of U.S. Treasuries. The Obama administration's shift to the Group of 20 (G20) as the focal point for global economic governance further increased China's interdependence in the global economy.

Progress of course has been uneven. Critics cite China's aggressive mercantilist policies including favoritism toward state-owned enterprises over foreign investors as evidence that Beijing has not played by the rules. Yet there are clear signs that Chinese policymakers are beginning to recognize their stake in a healthy and balanced world economy, as well as their obligation to tackle cross-border problems such as climate change.

The State Department is a central player in shaping an integrated economic and foreign policy strategy toward China, for example, in the U.S.-China Strategic and Economic Dialogue (S&ED) that State and Treasury head on the American side. Led by a series of exceptional ambassadors, State's economic officers in Beijing—its largest complement in the world—provide Washington with the information and analysis needed to craft policy interventions while their advocacy supports Washington agencies' efforts to advance our largest bilateral economic agenda.

Washington interagency context. Moreover, the events of September 11 and the war on terrorism led to an increased emphasis on other policy areas in State's own prioritization of issues. Although the agency has continued to emphasize the importance of promoting American exports and protecting foreign investment, and continues to receive high marks for its economic advocacy efforts in the field, there has clearly been a relative decline in the economic function at State over the past decade.

At the same time, in recent years other agencies fell into the habit of frequently excluding State from decisionmaking on issues that had a clear foreign policy component. For instance, the department was largely invisible in international discussions of the global financial crisis that began in 2008, even though in many countries, such as the euro zone member states, it was considered the most important *foreign policy* issue in their relationship with the United States. To a great extent, U.S. foreign economic policy has become the province of specialized economic departments and agencies—Treasury, USTR, Commerce, Agriculture, Energy, and others.

Recognizing the growing importance of economics in foreign policy and the need for State to “up its game” in this area, Secretary of State Hillary Clinton launched an “Economic Statecraft” initiative in 2011. In announcing the initiative, Clinton said, “Our problems have never respected dividing lines between global economics and international diplomacy. And neither can our solutions. That is why I have put what I call economic statecraft at the heart of our foreign policy agenda.” Economic Statecraft had four main strands: updating the State Department’s priorities to put more emphasis on economic issues; strengthening State’s trade, investment, and commercial diplomacy agenda; using economic tools to solve foreign policy challenges; and building the capacity of the State Department in this area.

At the same time, Secretary Clinton oversaw a major reorganization of the economic function at State. Most important, the E under secretary assumed leadership for coordinating the three main economic offices at State—the newly created bureau for Energy Resources (ENR) and the preexisting bureaus for Economic and Business (EB) and Oceans and International Environmental and Scientific Affairs (OES). The consolidation of several disparate energy offices at State into ENR was especially timely as it strengthened the department’s role in energy diplomacy just as the revolution in shale and unconventional resources was transforming global markets. As noted below, however, the NSC has sometimes sidelined ENR as it has increasingly assumed an operational role in energy and other international economic policy issues.

The Economic Statecraft initiative was widely welcomed by economic officers at State as a positive effort to help restore the department’s traditional policymaking role in this area. However, other than a few new initiatives such as “Direct Line” (see box), Economic Statecraft did not mean sweeping changes in the way State did its business, nor did it make significant progress toward more effective use of economic policy to enhance U.S. foreign policy efforts.

The Economic Statecraft Initiative

The State Department’s 2011 Economic Statecraft Initiative globally reenergized department and embassy commercial promotion activities. U.S. companies welcomed State’s new “Direct Line” service that facilitates open conversations about commercial opportunities between U.S. ambassadors, American business leaders, and senior foreign government officials. In FY 2012, State’s “Direct Line” and other business advocacy efforts led to new contracts, resolution of dispute settlements, and foreign economic policy changes worth an estimated \$13 billion.

Shortly after taking office, Secretary of State John Kerry made clear that he, too, intended to put a priority on economic issues. Framing his first speech as secretary at the University of Virginia in February 2013 around economic concerns, Kerry stated, “We can be complacent, or we can be competitive. As new markets bloom in every corner of the globe—and they will, with or without us—we can be there to help plant the seeds, or we can cede that power to others.” In early 2014, Kerry launched a new “Shared Prosperity” initiative and set up internal processes to explore ways of further enhancing State’s economic capabilities.

These initiatives have played a useful role in putting a spotlight on the importance of economics in foreign policy in the twenty-first century and in raising the priority of

economic tools and objectives in the work of the State Department. The purpose of this study is to suggest how State can best leverage its strengths and correct its weaknesses in order to restore the department's role as a leading agency in international economic policymaking.

State's Strengths and Weaknesses

Regarding State's capabilities in international economic policy, the whole is often not equal to the sum of its parts. With its global geographical reach, State has a vast reservoir of information, experience, and wisdom in its economic officers, and yet as an institution, it is unable to fully harness these resources in the Washington policymaking environment.

In fact, one could say that State possesses two distinct, but overlapping, "brands" related to international economic policy: the "American embassy brand" and the "Foggy Bottom brand." That was the clear message we heard from knowledgeable users of the State Department's products and services, including senior veterans of the interagency policy community. Although there is necessarily some overlap between the two brands, there is also differentiation between products and services provided to the "consumers" of each brand. For instance, American embassy consumers are primarily found outside the United States or are looking at opportunities in a particular country, while Foggy Bottom brand customers are mostly found among the "inside the Beltway" policy community.

Overseas, State nearly always is perceived as performing above its weight, providing timely analysis of economic developments in the host country, offering assessments of U.S. national interests and how to achieve them, and effectively engaging in commercial advocacy. Economic officers have constant presence and "reach," that is, contact with the full spectrum of government officials, local political and business leaders, civil society, academics, and nongovernmental organizations (NGOs) in over a hundred missions abroad, including most of the world's major commercial centers. As a result, State officers are often best able to integrate bilateral foreign policy initiatives with global, regional, and multilateral U.S. objectives, and to integrate all international relations disciplines (e.g., political affairs, military affairs, cultural affairs, and economic affairs) into one coordinated foreign policy.

The key to the American embassy formula's success is enlightened ambassadorial leadership that prioritizes economic goals and requires interagency coordination, creating a one-stop shop for U.S. business in the mission. In many posts, State economic officers act as the eyes and ears for other agencies, for example, not only delivering Treasury's or USTR's *démarches*, but also providing input for the annual National Trade Estimate report and Country Commercial Guide in the host country. State can also provide invaluable insight into the political dimensions of host country economic policy, for instance, the domestic pressures that drive a government's runaway fiscal deficits. With their language facility and immediate access to a broad range of host government agencies, State economic officers can offer excellent help to American firms in such things as winning a procurement contract. In cooperation with the U.S. Agency for International Development (USAID), State often helps mesh development assistance objectives with broader U.S. economic interests in emerging nations.

The private sector in particular highly values the ability of embassies to craft “whole-of-government” products and services, recognizing them as well-informed, coherent, and supportive of U.S. economic and commercial policy objectives. The ambassador’s statutory role as the president’s personal representative to the host government makes unified, whole-of-government services possible at this level. Private firms considering investing or exporting to a certain country often find it extremely helpful when ambassadors organize integrated briefings from the extended “country team,” including representatives from State’s Political and Economic sections, as well as other agencies at post such as Commerce, Customs, and Agriculture. Customers especially appreciate the effectiveness of ambassadorial interventions with senior host government decisionmakers, business leaders, and NGO communities. A series of strong U.S. ambassadors to Beijing, for instance, has been central to the success of U.S. bilateral economic policy with China. As economic policy increases in complexity, ambassadors’ ability to engage substantively across the full spectrum of economic policy issues is becoming increasingly important.

State also possesses “reach” in another sense. It is the only federal agency with near-universal coverage of all international economic policy disciplines. In many posts, economic officers represent every aspect of economic and commercial policy and can provide the U.S. government’s logistical platform for whole-of-government diplomacy. With its unique international and interagency connectivity, State’s internal policy deliberations often foreshadow broader interagency debate on key issues. In the past, the NSC often capitalized on these attributes by tasking State to lead interagency policy committees that shape U.S. policy agendas. However, this practice has diminished over time as the NSC itself has taken up these responsibilities.

Much of State’s effectiveness in Washington has depended on strong personalities, namely, the leadership in top economic positions in the department, and their willingness to tackle technically complex issues and take a forceful stand in the interagency process. Nevertheless, State is often perceived by users as a less effective contributor to the interagency than it could be.

Fairly or unfairly, State is often seen as more knowledgeable about—and at times sympathetic to—the concerns of a foreign government than U.S. interests, and State economic policy products provided for interagency discussion tend to reflect such biases while offering incomplete economic policy analyses. One observer commented that other agencies sometimes (mis)interpret State’s descriptions of host country internal government dynamics as excuses for not pressing for decisions favorable to U.S. economic and commercial interests. Instead, State should use the knowledge and expertise of embassies to recommend and coordinate appropriate tactics and strategies to achieve U.S. government goals.

State’s participation in the interagency process is now seen as uneven in both rank and quality, reinforcing impressions that economic policy commands a low priority at State. Frequently, State representatives to interagency meetings are junior in rank and have less substantive knowledge and bureaucratic savvy than their counterparts from Treasury, USTR, Commerce, or other agencies. This may explain comments that State representatives often take hard positions during interagency debate, only to have more senior State officials take a more accommodating approach when the issue is elevated. Moreover, State often sends multiple representatives to meetings who may present

conflicting policy positions during interagency debate, leaving the impression that State is unable to get its own house in order, let alone coherently advise the interagency on the foreign policy implications of the matter at hand. These criticisms point to the importance of strong coordinating leadership, especially on the part of the E under secretary.

Because economic policy affects company bottom lines and American jobs, economic policy is an arena in which the achievement of time-sensitive, tangible outcomes matters. Yet State representatives sometimes exasperate interagency colleagues with a focus on process, asking multiple questions that rightly or wrongly are interpreted as a means to delay action. State's complicated and time-consuming internal clearance processes (a source of considerable frustration for State officers as well) raise doubts about its reliability and seriousness. For their part, private firms complain that State, which generally plays such a useful integrative function abroad, is but one of several stops in the interagency they must make to get a hearing, and that State is often slow to follow up.

State's Response to the Arab Spring: Twisting in the Wind on Tunisia

In the wake of President Ben Ali's ouster, the entrepreneurial spirit that was the source of the Arab Spring inspired State's Bureau of Economic and Business Affairs (EB) to craft a set of economic policy recommendations to support Tunisia's political transition. The draft paper included measures to connect Tunisian entrepreneurs with American investors and expand Overseas Private Investment Corporation lending and insurance programs in Tunisia. To support entrepreneurs, the EB group also wanted to push the Tunisian government to liberalize its financial sector and modernize an outdated bilateral investment treaty (BIT).

Unfortunately, by the time the paper worked its way through State, its policy innovations were deleted, to be replaced in the interagency process with a USTR proposal for increased engagement with Tunisia under the existing bilateral trade and investment framework agreement (TIFA)—a reasonable approach in normal times, but not one designed to jumpstart the Tunisian transition to a modern market-based economy under crisis conditions. Divisions within State undermined its ability to interact in a coherent and effective manner, and an opportunity to link U.S. trade and investment policies to broader foreign policy aims was lost.

Internal Impediments to State's Effectiveness

Why then is State not carrying its weight in the interagency? First of all, since 9/11 State has given less weight to international economic policy relative to competing objectives such as counterterrorism. Despite occasional rhetorical statements to the contrary, more resources, time, and effort go to traditional political and security issues, even when economic and commercial interests clearly belong in the foreign policy mix.

We have already noted the vital role of leadership, both at U.S. missions abroad and within the key economic offices within State:

- Under Secretary for Economic Growth, Energy, and Environment (E)
- Bureau of Economic and Business Affairs (EB)

- Bureau of Oceans and International Environmental and Scientific Affairs (OES)
- Bureau of Energy Resources (ENR)
- U.S. Agency for International Development (USAID)

Although there are many noteworthy exceptions, the political appointees who populate the top jobs in these offices are sometimes ineffective leaders and managers, and this can be damaging to morale.

Internal structural issues are a critical factor that must be addressed if the State Department is to play an effective role in international economic policy formulation and implementation. State's six regional bureaus, whose chiefs (assistant secretaries) report to the secretary through the under secretary for political affairs (P), are a core part of the department's foreign relations machinery and often take a major if not leading role in determining bilateral economic policy within the department. Functional bureaus that provide policy expertise in specific areas such as economics, development, environment, health, export controls, human rights, law enforcement, consular affairs, and security all participate in intra-State review of economic policy issues, with varying degrees of effectiveness.

To complicate matters, each of the functional bureaus reports to one of several offices: the E under secretary; USAID administrator; under secretary for arms control and international security affairs; under secretary for management; and under secretary for civilian security, democracy, and human rights. In addition, several smaller offices that are involved in various aspects of economic policy work directly for the secretary of state. Not surprisingly, this can result in an abundance of conflicting recommendations.

This is why the E under secretary must have a clear mandate from the secretary of state to coordinate all international economic policy issues. With so many offices vying for the attention of State's senior leaders, the predictable result without such leadership will often be confusion, delay, and inferior products and services. In particular, the conflict and turmoil between the functional (e.g., EB, OES, Energy) and geographical bureaus (European and Eurasian Affairs, East Asia and Pacific Affairs, etc.) can be a major handicap (although this problem is not unique to State). The geographical bureaus have a crucial role within State, but despite some having offices that are charged with regional economic issues, they usually lack the expertise to participate meaningfully in the highly technical issues that come up in interagency economic policy meetings. For their part, the functional economic bureaus at State that are supposed to harbor such expertise do not always have the regional or country-specific depth that should be State's strongest comparative advantage. Again, E's role in integrating policy is critical.

Another problem in the State Department is that offices often focus their attention on the policy issue of the day, rather than taking a more strategic view of global, regional, and economic issues that impact foreign relations. One observer described State's economic policy review process as "amoeba ball," with multiple offices crowding into the space of highest interest to senior policy officials.

EB's own organization, a relic of the 1980s when State had much more robust leadership over international economic policy, creates misunderstandings both within State and among the interagency. For instance, USTR complains—fairly or unfairly—that EB trade

officers sometimes appear more interested in reporting USTR's activities in interagency meetings or trade negotiations to State's leadership than in providing constructive input at the meetings. Similarly, Treasury is very protective of its access to the IMF, often excluding State because it fears State will introduce views based on foreign policy considerations that are at odds with the messages or interests that Treasury is pursuing.

The continuous turnover of foreign service officers (FSOs) in domestic positions clearly can work to the disadvantage of State in the interagency process, as they are often dealing with counterparts who enjoy personal working relationships and routines established over a period of many years, even decades. Unless they are especially skilled, well-trained, and determined, new Foreign Service economic officers may quickly discern that they have less economic policy experience and substantive knowledge than their civil service interagency colleagues, and thus find it hard to blend into the system or hold their own in debate.

The Role of Other Agencies

The State Department does not operate in a vacuum when it engages in international economic policy, and its effectiveness is conditioned by the role and behavior of other agencies of the U.S. government.

In the nation's early history, State had a near monopoly on the international work of the U.S. government, but in modern times there has been a proliferation of actors in this space. In part this reflects better communications and transportation, which enables direct contact between other agencies and their foreign counterparts. However, it is also a function of broader changes in the nature of the U.S. government's work: in a globalized world, even agencies nominally focused on domestic concerns (e.g., the Department of Health and Human Services) need to have international capabilities in order to fulfill their domestic mandates (protecting Americans' health).

This proliferation of agencies involved in the international policy space naturally creates severe challenges of coordination. This is less of a problem in the field, where the ambassador serves as "CEO" and can (more or less) ensure that all agencies row in the same direction. But in Washington, lack of coordination is a chronic problem, as agencies pursue their individual mandates in international affairs often with little regard for the often-overlapping interests and efforts of other agencies. Despite its role as the U.S. government's premier foreign policy agency, State is often left in the dark and unable to play its role effectively. This is a problem that the NSC must address.

This problem is compounded by the behavior of other agencies involved in international economic policymaking. In particular, USTR and Treasury are well known for defending their own policy "turf" and are often reluctant to share information and to coordinate mutually reinforcing diplomatic activity. Bureaucratic gamesmanship sometimes takes precedence over identifying the best policy mix to serve the national interest. By cutting State out, these agencies make it difficult for State officers to perform effectively and reinforces the stereotype that the only thing State officers understand is the interests of foreign governments. Most importantly, this turf-conscious approach undercuts the effectiveness of the nation's foreign policy.

For the most part, officers from the Foreign Commercial Service (FCS) and State economic sections work closely and harmoniously together in overseas missions to promote U.S. commercial interests. FCS, however, has sometimes been reluctant to acknowledge State's important role in commercial advocacy, despite its frequent use of the services of economic FSOs abroad, including in the many countries where FCS has no presence. Having become accustomed to State's diminished status in economic policymaking, especially in the Washington context, some FCS officers greeted the announcement of Secretary Clinton's Economic Statecraft initiative with alarm, seeing it as a challenge to their own prerogatives. In their view, State's (slightly) enhanced capabilities in advocacy for U.S. companies abroad—a function that State had in fact never relinquished—seemed to threaten FCS's claim to be the lead agency in that role; in fact, Direct Line and other innovations enhanced the overall effectiveness of U.S. commercial advocacy abroad. In embassies with effective commercial advocacy programs, all parts of the mission support commercial advocacy; in a real sense, the ambassador serves as the “senior commercial officer.”

The NSC is charged with coordinating the interagency process but is insufficiently staffed to fully resolve such bureaucratic rivalries or to execute key policy initiatives on its own. Over a period of many years, and across successive administrations, the NSC has concentrated an increasing amount of decisionmaking power into its own hands, rather than delegating authority to responsible line agencies. More recently, NSC personnel have become increasingly operational in foreign and economic affairs, displacing agency personnel that have traditionally led the U.S. government's international engagement.

Top-level coordination, of course, is both necessary and desirable. In practice, however, the NSC often takes on more than it can handle; ignores the input of line agencies with relevant expertise; and frequently end-runs U.S. missions abroad, communicating directly with counterparts in foreign capitals, often without informing others—even the ambassador, who serves as the president's representative in the host country. Among other consequences, these practices undermine and negate the significant resources and talent that Washington has invested in its overseas missions. In effect, the value of the American embassy brand is squandered.

The NSC's failure to delegate can also undermine effective policy. To cite one example, the Transatlantic Economic Council (TEC)—a presidentially mandated effort to cut regulatory red tape between the United States and the European Union—stalled in the late Bush and early Obama years, in part because the issues were more complex than the politicians (including German Chancellor Angela Merkel) had realized and also because regulators on both sides stubbornly resisted change. Nonetheless, the interagency process queued up a reasonable list of action items at the working level that could have helped maintain momentum on regulatory reform while U.S. and EU negotiators wrestled with the more ambitious mandate of the current Transatlantic Trade and Investment Partnership (TTIP) talks. The TEC, however, stopped meeting primarily because the NSC, given other priorities, did not have the bandwidth to manage the process.

The tendency to restrict international economic policymaking to the NSC can also unnecessarily inhibit transparency, leading to suboptimal outcomes. The G20, for instance, is widely applauded for helping restore stability to the global economy and financial system. But G20 work in the U.S. government is largely managed by the NSC

“Sherpa” and senior Treasury officials without the involvement of State economic officers, ambassadors, and embassy staff, who have the local political and economic policy insights both to advise U.S. G20 officials and to influence host government decision makers in favor of U.S. policy objectives. Establishing a G20 interagency process with active State participation, as formalized in the G7/G8 arena, would be a step toward more effective U.S. leadership of the G20.

The growing role of Congress in foreign policymaking has also affected how State and other agencies operate. The Hill has steadily imposed new reporting requirements on the Foreign Service and intervened in the appointment of key officers, including ambassadorial nominees. Congress has also imposed rules and procedures that sometimes make it difficult to execute seemingly simple personnel and portfolio changes. On the other hand, congressional mandates have often been constructive, for instance, in requiring State to set up new offices specifically dedicated to intellectual property rights and telecommunications policy. State consultation and engagement with Congress is critical to effective foreign policymaking, and congressional delegations (codels) abroad can yield rich benefits. Yet the department’s legislative liaison office lacks the resources that it needs to fully engage with Congress, especially given the complex committee structure in the House and Senate and their overlapping and conflicting jurisdictions on foreign policy and national security issues. Furthermore, at times that office has seemed more interested in preventing than in facilitating working-level engagement between State and congressional staff. This is another area where State needs to improve its game.

The end result of these external constraints is that State’s strengths are not fully exploited, and the U.S. government’s ability to influence and leverage foreign governments is not maximized. Often State is required to issue demarches to foreign governments crafted by other agencies in Washington using bland talking points that are ineffective with target audiences. Rather than being encouraged to adapt these points to local circumstances, FSOs in some instances are strictly prohibited from straying from the Washington script.

Recommendations

Successful U.S. international economic policy requires a State Department that is capable, focused, and enabled in this critical area. State has important contributions to make on both sides of the economic statecraft coin: using its diplomatic tools to support better economic outcomes, and making more strategic use of economic tools in shaping foreign policy.

Secretary Clinton’s Economic Statecraft initiative raised the profile of international economic policy within the department and among embassies, but it was heavily focused on commercial promotion rather than strategic policy issues. Thus, Economic Statecraft strengthened State’s American embassy brand, but did less to address State’s weaker policy role in Washington. As valuable as State’s overseas role is, one advisory group member observed, the U.S. government can generally do more to advance the U.S. national interest by negotiating the creation of a rules-based global economic system in multilateral forums than by trying to engage in transaction-by-transaction interventions in individual foreign capitals.

As Secretary John Kerry launches State’s new “Shared Prosperity” agenda, the next logical step would be to take appropriate steps to strengthen the department’s Foggy Bottom brand by improving the products and services State offers to other agencies and to the U.S. business community. Specifically, State should focus on fully deploying its comparative advantage of “reach”—globally, within foreign countries, and across economic policy disciplines—to become more customer-oriented. Ideally, other agencies should look to State for value-added analysis of foreign countries to support broader U.S. government international economic policy objectives.

Achieving this customer orientation will require structural changes at State, improved training for ambassadors and State personnel, and expanded assignment opportunities for Foreign Service economic officers. We also believe that the NSC will need to make changes to its practices to take full advantage of State’s capabilities. The role of the NSC and other agencies in international economic policymaking is a topic that we intend to address in a future report.

Here are our main recommendations:

1. **The secretary of state** should lead the effort within State to integrate foreign policy and economic policy, and put his or her personal stamp on economic statecraft. He should clearly designate the **under secretary for economic growth, energy, and the environment (E)** as the lead in coordinating economic policy within the department and in representing State in the interagency.
2. The secretary of state should instruct **ambassadors** to treat bilateral economic policy and support for U.S. business as top priorities. State should ensure that individuals nominated to be ambassadors have a thorough knowledge and familiarity with U.S. international economic policy, the federal economic policy bureaucracy, and relevant congressional committees. Economic tradecraft training for ambassadors should be significantly upgraded.
3. State should appoint a career economic officer at the **deputy assistant secretary (DAS)** or principal DAS (PDAS) level to lead foreign economic policy integration **in each regional bureau** as his or her primary responsibility. At least half of the DAS and senior-level positions in the EB Front Office should consist of economic FSOs.
4. **Regional assistant secretary** work requirements should require active leadership integrating economic policy into regional foreign relations, and E’s reflections on their performance on this mission should be required content for their annual performance evaluations. Favorable comments from E should be required for promotion and award of senior performance pay.
5. State should stand up a **regional economic policy office** in every regional bureau that reports to the bureau’s economic DAS.
6. State should formally announce that the **coordinator for business affairs** is State’s main point of contact for commercial services and support—the one-stop shop at State for U.S. business. The coordinator should be an economic FSO—not a political appointee or civil servant as has been the common practice—who works directly with the economic DASes in other bureaus, as well as with other agencies such as Commerce.

7. State should strengthen the capacities of its career personnel by updating its **economic and commercial training program**. State should recruit more new officers with strong academic training in economics and provide opportunities for current economic officers to complete graduate degrees in international economics.
8. State should invest in the professional development of its economic officers by creating **more detail assignments** to federal economic agencies, international financial institutions, regional development banks, international and multilateral organizations, think tanks, state and local governments, and private companies. State should also **improve professional incentives** for its career economic officers through accelerated promotions and the more favorable assignments, for example, priority consideration for principal officer positions in major commercial centers.²
9. The NSC should look to State to coordinate integration of economic policy into foreign policy, beginning with designating the appropriate State economic DAS as chair of a **standing interagency policy committee (IPC)** on foreign and economic policy integration, and task State with providing regional and multilateral analysis to decisionmaking in the interagency process. The NSC should request that State detail at least two senior (FS-01) economic officers to NSC's International Economics office, and at least one senior/mid-level (FS-01/02) officer to each NSC regional office, to coordinate foreign economic policy integration.
10. **Treasury, USTR, and other economic agencies** should integrate their international policy activities fully into the interagency process. These agencies should report through interagency mechanisms the substance of meetings in a timely fashion and share with other relevant agencies the substance of briefing materials that prepare their representatives for meetings with international counterparts. These agencies should also consider the funding of temporary details that would permit their employees to work in State economic sections abroad.

² Such as Shanghai, Guangzhou, Mumbai, Chennai, Karachi, Johannesburg, Lagos, Istanbul, Casablanca, Monterey, Toronto, Vancouver, Sao Paulo, Milan, and Melbourne.

About the Authors

Gregory N. Hicks is a visiting fellow from the State Department where he focuses on investment policy. In the course of a 22-year career at the State Department, he has served in six overseas assignments in Libya, Afghanistan, Bahrain, Yemen, Syria, and The Gambia. During tours in Washington, D.C., he served as deputy director of the Office of Investment Affairs in the Bureau of Economic and Business Affairs, as special assistant to the under secretary of state for economic, energy, and agricultural affairs, as a trade policy negotiator for the Office of the U.S. Trade Representative, and as country officer for Vietnam, Oman, and Yemen. He played key roles in the negotiation of Vietnam's World Trade Organization (WTO) accession, the Bahrain Free Trade Agreement, the Vietnam Bilateral Trade Agreement, and Oman's WTO accession. In the course of his career, he has received six Meritorious Service Increases, four individual Superior Honor Awards, three individual Meritorious Honor Awards, and was runner-up for the department-wide Annual Human Rights Award. Prior to joining the Foreign Service, Mr. Hicks earned two master's degrees from the University of Michigan, in applied economics and modern Near Eastern and North African studies. He graduated from Bethany College, West Virginia, with a B.A. in interdisciplinary studies.

Robert A. Pollard is a senior Foreign Service officer with 30 years of international experience. He joined the CSIS Europe Program as a State Department visiting fellow in September 2013. Mr. Pollard served as economic minister-counselor at the U.S. mission to the European Union in Brussels from 2010 to 2013, where he advised on trade and investment issues, the euro zone, EU regulatory reform, Iran sanctions, data privacy, and energy security. At the U.S. embassy in Berlin, from 2007 to 2010, he covered the financial crisis, Iran sanctions, and counterterrorism. As director for bilateral trade affairs at the State Department, he was responsible for negotiation of free-trade agreements. Other postings have included London, Munich, Washington, Singapore, Bangkok, Surabaya, and Kuala Lumpur (deputy chief of mission). In Southeast Asia, he focused on the 1997 monetary crisis in Thailand, the political transition in Indonesia after Suharto, and the emergence of indigenous terrorist groups after 9/11. Among other honors, he has received the Director General's Award for Reporting and Analysis. Mr. Pollard holds an A.B. from Brown University and a Ph.D. in American diplomatic history from the University of North Carolina. He is the author of *Economic Security and the Origins of the Cold War, 1945–1950* (Columbia University Press, 1985). Before the Foreign Service, he worked at the Woodrow Wilson International Center for Scholars in Washington, D.C., including as essays editor for the *Wilson Quarterly*.



The authors are State Department visiting fellows at the Center for Strategic and International Studies in Washington, D.C. They are writing in a personal capacity, and the views expressed in this report are entirely their own.

CSIS | CENTER FOR STRATEGIC &
INTERNATIONAL STUDIES

1616 Rhode Island Avenue NW | Washington, DC 20036
t. 202.887.0200 | f. 202.775.3199 | www.csis.org

Cover photo: U.S. National Archives and Records Administration.