V. International Economic Policy

Introduction

In the 1990s, the end of the Cold War saw the rising importance of economics in U.S. foreign affairs. Economic growth as a factor in regional political stability, the importance of the global economic structure for Americans' prosperity, sanctions as an instrument of foreign policy, regional and multilateral trade initiatives, the World Trade Organization as a successor to the General Agreement on Tariffs and Trade—these and other economic issues assumed greater prominence as the United States sought greater prosperity and the expansion of democracy in the post-communist world. Moreover, there was a growing partnership with the private sector; for example, U.S. companies dealing overseas shared the U.S. government's interest in promoting the rule of law, including functioning court systems and clear and transparent rule-making procedures.

The Under Secretary for Economic, Business and Agricultural Affairs (E) served as the senior economic official at the Department of State, advising the Secretary of State on international economic policy and leading the work of the Department on issues ranging from trade, agriculture, and aviation to bilateral relations with America's economic partners. He directed formulation of and/or coordinated Department policies and positions on economic, commercial, and agricultural issues; and supervised the execution of these policies within the Department of State. He assisted the Secretary in representing the United States at international meetings and in presenting the Department's position before congressional committees on economic matters. He also represented the Department at interdepartmental meetings including Cabinet Councils, and the National Economic Council, and in providing policy advice to the Secretary on matters under consideration by these groups. He provided management oversight for the Bureau of Economic and Business Affairs. He also served as the Department's representative to the Group of 8 (G-8) meetings, and as Alternate Governor for the International Bank for Reconstruction and Development; the Inter-American Development Bank; the Asian Development Bank; the African Development Fund; and the European Bank for Reconstruction and Development.

The Bureau of Economic and Business Affairs (EB), under the direction of the Assistant Secretary of State, formulated and carried out U.S. foreign economic policy, integrating U.S. economic interests with U.S. foreign policy goals so that American firms and investors could compete on an equal basis with their counterparts overseas. EB implemented American economic policy in cooperation with U.S. companies, U.S. government agencies, and other organizations.

Trade

In 1992, 10 million Americans were unemployed, new job creation was slow, and wages were stagnant. Other nations' high trade barriers limited the ability of American businesses and farmers to sell their goods abroad and hampered economic recovery. U.S. trade policies failed to reflect American values by not taking into account a responsibility to protect the environment, eliminate child labor and sweatshops, and the rights of workers around the world. In the years since 1992, the following was accomplished:

- President Clinton opened markets for U.S. exports abroad and created American jobs through nearly 300 free and fair trade agreements.
- Between 1992 and 2000, U.S. exports of goods and services grew by 74 percent, or nearly $500 billion, to top $1 trillion for the first time.
- Jobs supported by American exports grew by 1.4 million between 1994 and 1998, with jobs supported by exports paying about 13 percent to 16 percent above the U.S. national average. Jobs related to exports paid, on average, 13 to 16 percent higher than other jobs.
- Negotiations on the North American Free Trade Agreement (NAFTA) and on the General Agreement on Tariffs and Trade (GATT) Uruguay Round were completed in 1994 and obtained Congressional approval.
- In 1994 the administration concluded the Uruguay Round, the most ambitious of the eight rounds of global trade negotiations that have taken place since World War II. The agreement not only lowered barriers to U.S. exports, but brought agriculture and services trade under multilateral discipline to open markets for U.S. producers, and established the World Trade Organization.
- Bilateral trade agreements were negotiated with China and Vietnam that would help transform these Communist economies into market economies.
- The administration developed closer economic consultation and cooperation with the European Union under the 1995 New Transatlantic Agenda, including coordination of efforts to promote Balkan economic stability and conclusion of several Mutual Recognition Agreements making it easier to market goods on both sides of the Atlantic.
- Negotiations were completed with Jordan on a bilateral free trade agreement (FTA) that would help encourage the Mid-East peace process and mutually-beneficial trade relations between the United States and Jordan, and also between Jordan and Israel. The FTA with Jordan contained for the first time provisions that would help ensure that Jordan enforced its labor and environment laws. Congress had not passed the necessary implementation legislation by the time the Clinton administration left office.
- The administration won approval of permanent normal trade relations with China, and in 2000, Congress ratified the agreement. The agreement would integrate China into the world economy through entry into the World Trade Organization (WTO), open the Chinese market to U.S. exports, slash Chinese tariffs, and protect American workers and companies against dumping.
- The administration helped achieve Congressional passage of the first-ever African trade program, the African Growth and Opportunity Act of 2000, which supported increased trade and investment between the United States and Africa, strengthened African economies and democratic governments, and increased partnerships to counter terrorism, crime, environmental degradation, and disease. The same bill also made important improvements to the Caribbean Basin Initiative trade program that would foster greater growth and stability in the

Caribbean and Central America and created incentives for the countries of sub-Saharan Africa and the Caribbean Basin to continue reforming their economies.

- The administration opened negotiations for the Free Trade Area of the Americas (FTAA), which would lead to the creation of a free trade area from Canada to Argentina, with more than 1 billion people and a combined GDP of more than $10 trillion.
- Negotiations for a free trade agreement (FTA) with Chile were launched aimed at an eventual agreement that would set a high standard for future FTAs throughout the world. The agreement would also solidify the U.S.-Chilean relationship and promote economic reform and free market principles in Latin America.
- The practice of holding an annual Leaders meeting in the APEC Forum was initiated. President Clinton hosted the first meeting in 1993, setting the stage for Leaders to agree in 1994 on a long-term vision of free and open trade throughout the Pacific, and to adopt in 1995 and 1996 a set of detailed action plans to achieve that vision. APEC members accounted for about half of global trade.
- Free trade talks were also begun with Singapore in December 2000 with the goal of developing the framework of a free trade agreement (FTA), the first with an Asian country, that could be concluded by the Bush administration. The FTA would strengthen relations with Singapore, the United States' tenth largest trading partner and a leading Southeast Asian voice for trade liberalization, and set an example of progress toward the goal of free trade throughout the Pacific, as agreed by APEC members.
- The administration developed closer economic consultation and cooperation with the European Union under the 1995 New Transatlantic Agenda, including coordination of efforts to promote Balkan economic stability and conclusion of several Mutual Recognition Agreements making it easier to market goods on both sides of the Atlantic.
- During the 1997-1999 Asian financial crisis, the State Department encouraged and supported structural reforms in the economies most affected by the crisis, contributing to the rapid recovery that allowed all economies in the region to register positive growth in 1999. In addition, State worked to help the region retain open market policies as agreed in WTO commitments and national policies, leading to expanded trade in 1999 and avoiding a destructive rise in protectionism. The Department worked with Asian countries to adhere to an open-market, rules-based trading system to help avoid a repetition of the crisis.
- The Department of State led a coordinated U.S. government effort to eliminate Japanese legal and regulatory barriers obstructing the opening of large retail stores in Japan, the primary carriers of U.S. and other foreign merchandise. U.S. pressure led to the abolition of most legal restrictions in 1998, opening opportunities for the successful establishment of large U.S. retailers in Japan. and broadening Japanese consumer access to U.S. merchandise.

Development Finance

With a post-Cold War decline in funding for bilateral assistance programs came a greater U.S. focus on the role of the World Bank and other multilateral development banks (MDBs). In coordination with the Treasury Department, EB promoted a number of reforms in the MDBs. With strong encouragement from the United States, the MDBs paid greater attention to the environmental and social impacts of their programs, and devoted a steadily increasing proportion of their funds to health, education, and other social expenditure. The development banks improved transparency, accountability, and safeguards in their own procedures, and became active in strengthening governance and fighting corruption in the countries to which they lend. Attacking poverty became the core mission of the MDBs, and increasingly, the banks measured their success not by the amount they spend, but by actual developmental outcomes.

While there was real progress in Asia and Latin America, Africa remained mired in poverty. The Clinton administration was active in promoting MDB policies that address the issue, including World Bank funding for AIDS and other infectious diseases, and funding focused on countries emerging from conflict. The United States was in the forefront of a G-7 effort to use MDB resources to address problems that transcend national boundaries.

International Finance

Early in the Clinton administration, EB faced a host of financial challenges, beginning with the "tequila crisis" in Mexico. Along with Treasury, international financial institutions, and the Federal Reserve, EB assembled a rescue package that ensured Mexican solvency and access to financial markets. When crisis struck in Asia in 1997, and EB helped engineer a series of disbursements from the international financial institutions, bilateral donors, and creditors to mitigate the effects of the crisis and to support the recovery.

EB led Paris Club discussions on a wide field of issues during this administration. In a series of historic reschedulings, the Paris Club treated Russian debt and ultimately admitted Russia as a permanent creditor member. The Paris Club also concluded multi-billion-dollar reschedulings with Nigeria, Pakistan, and Indonesia. Beginning with the G-7 Summit in Naples in 1994, the Club initiated measures to reduce the Paris Club debt of the world's poorest countries. The Heavily-Indebted Poor Country initiative, the latest effort on this front, for the first time also reduced debt of the poorest to the international financial institutions themselves. Equally significant were the "graduates" of the Paris Club, who sought and received debt relief and no longer relied on reschedulings for financial viability. These included Costa Rica, Jamaica, Jordan, and Peru.

Transportation

Aviation was one of this decade's biggest economic success stories. Since 1992, the United States, under State Department leadership, negotiated 52 Open Skies agreements and significantly liberalized aviation relations with Japan, France, Canada, and Mexico. At the end of the Clinton administration, approximately 60 percent of the U.S. international aviation market fell under either Open Skies or other, significantly liberalized arrangements. Department of Transportation analysis showed that Open Skies agreements had lowered fares to consumers by approximately 14 percent, compared to less than 3 percent on routes with non-Open Skies countries.

This signal achievement in U.S. economic policy spanned the continents, with Open Skies accords in place in Europe, Asia, Africa, and Central and South America. U.S. leadership made Open Skies the international template for modern civil aviation relations, with American economic concepts and treaty language borrowed by other countries. This, in turn, laid the essential foundation for moving beyond bilateralism to a multilateral framework appropriate to the new millenium's global economy. An important first step was taken in this direction with the successful negotiation of an Open Skies multilateral agreement among five APEC members in the fall of 2000.

The State Department also succeeded in making the skies both friendlier and safer for American passengers, while challenging efforts that threatened the benefits of liberalization accruing to U.S. industry. In 1999, in the International Civil Aviation Organization (ICAO), the administration achieved a 40-plus-year U.S. goal by negotiating the "Montreal Convention" to modernize the airline accident liability regime for victims of disasters in international air transportation. The Department submitted the convention to the Senate for advice and consent, expected during the next Congressional session. The Bureau of Economic and Business Affairs also aided the FAA in its successful launch in 1992 of its International Aviation Safety Assessment (IASA) program to assess the safety oversight capabilities of all foreign civil aviation authorities in states whose carriers serve the United States. In March 1999, the Bureau spearheaded U.S. efforts to challenge in ICAO the discriminatory EU "hushkit" noise regulation that had cost the U.S. airline/aerospace industry an estimated $2 billion.

In the maritime sector, EB worked closely throughout President Clinton's tenure with the Maritime Administration and the Federal Maritime Commission to eliminate significant barriers to U.S. shipping companies in foreign markets. Major accomplishments included an agreement with Japan that would enable U.S. shipping lines to operate terminal facilities in that country; the elimination of discriminatory taxes and duties in Brazil that put U.S. shipping companies at a significant competitive disadvantage; and the first U.S. maritime agreement with Ukraine, ensuring fair and nondiscriminatory treatment of U.S. shipping companies.

Support for Business

During the 8 years of the Clinton administration, the Bureau of Economic Affairs (EB) successfully helped U.S. companies win overseas contracts totaling billion of dollars. The Bureau's Office of Commercial and Business Affairs (EB/CBA), working closely with the Department of Commerce and overseas posts, assisted companies in myriad sectors, including telecommunications, aviation, energy, defense, information technology, transportation, entertainment, food and agriculture, and infrastructure. Examples of successful advocacy support included:

- Boeing won a contract with South Africa Airways (SAA) for 21 Boeing 737 aircraft, worth about $700 million. If SAA exercised all its options, the deal would reach $2.4 billion.

- Enron successfully negotiated a $175 million energy deal with the Government of Croatia.
- NRG Energy Inc., a wholly-owned subsidiary of Minneapolis-based Northern States Power Company, signed an agreement with the Estonian state-run utility company for the partial purchase of two oil-shale fired power plants. The total investment was worth an estimated one billion dollars over the next 30 years.
- Lockheed Martin agreed to a contract with the government of Turkey to provide a vessel tracking system for the Turkish Straits.
- CMS Energy won a contract to build and operate the Al Taweelah power plant in the United Arab Emirates. The 710-megawatt plant project, combined with a desalination plant, was projected to provide 60 million gallons of drinking water per day.

Recognizing that U.S. companies also exported American values, good corporate citizenship and best practices helped to maintain American industry leadership overseas and enhance U.S. companies' credibility in the marketplace and long-term competitiveness. The Secretary in 1999 established the annual Award for Corporate Excellence, presented to companies that demonstrated exemplary corporate citizenship overseas. The first awards were presented in 1999 to F.C. Schaffer and Associates in Ethiopia, and Xerox Corporation's Brazil operations. In 2000, Frigorifico Canelones, S.A. of Uruguay, Motorola Malaysia, and Rayonier of New Zealand received the honors.

Anti-Corruption

The State Department worked hard to bring into being the anti-bribery convention of the Organization for Economic Cooperation and Development (in 1997) and the Organization of American States' Inter-American Convention against Corruption (in 1999). By making anti-corruption a key part of the development agenda, the United States helped take a major step forward for good government and fair competition

International Communications and the New Information Economy

The Internet became a major factor in the American global economy during the years President Clinton was in office, significantly amplifying the importance of international communications and information policy. By 2001, EB covered everything from bridging the international digital divide and Internet charging mechanisms to third generation wireless. The cross-sector initiative to move goods and services more efficiently around the world, electronically and by other routes, encompassed electronic commerce, telecommunications, transport, and customs.

In the area of international communications, the State Department:

- Worked with the Federal Communications Commission to help enforce the FCC Benchmark Order on international telephony accounting rates, cutting the average per-minute rate from 63 to 38 cents between 1997 and 2000.
- Worked to bring into being the Presidential "Internet for Economic Development" initiative promoting the growth and use of Internet in developing countries.

- Helped negotiate the Basic Agreement on Telecommunications (under WTO auspices), paving the way for further liberalization of telecommunications regimes around the world.
- Concluded a spectrum-sharing agreement with Mexico that allows introduction in the United States of digital audio radio service by satellite (DARS), which provided CD-quality coast-to-coast radio service.
- Won international agreement to the restructuring and privatization of INMARSAT and INTELSAT, successfully protecting vital U.S. interests in both organizations.
- Successfully protected U.S. positions on spectrum for third-generation wireless service and the Global Positioning System at the 2000 World Radiocommunication Conference.

Energy Security

EB, the regional bureaus, and the Department of Energy worked with major energy-producing and consuming countries to ensure adequate supplies of energy as oil markets grew tighter and more volatile, and responded effectively to several disruptions of oil supplies from Iraq.

International Economic Sanctions

There was increased use of sanctions as a foreign policy tool during the Clinton administration. Most sanctions were non-discretionary measures required by Congress in law; relatively few were imposed by the President using his discretionary power, notably the tightening of the U.S. embargo against Iran in 1995 and the imposition of a comprehensive embargo against Sudan in 1997.

In this period, Congress passed major sanctions legislation, the Libertad Act (also known as Helms-Burton) and the Iran and Libya Sanctions Act (ILSA), which created problems with U.S. allies due to the "extraterritorial" reach of the laws. State was in the forefront of suggesting how Presidential waiver authority in the laws could be used to deflect foreign criticism while preserving the integrity of the laws. The Department took the lead in proposing an important change in sanctions policy to allow commercial sales of agricultural and medical products to embargoed destinations such as Iran, Libya, and the Sudan. This marked an important change in U.S. sanctions policy and established a humanitarian principle that food and medicine should not be used as a tool of foreign policy and an economic principle that U.S. sanctions should not impose undue burdens on our agricultural and business sectors.

EB's efforts to persuade other agencies and Congress that sanctions were inherently a blunt instrument that could cause unintended harm to other important national interests has reduced the number of unilateral sanctions imposed in recent years in favor of multilateral sanctions with wider support and greater effectiveness. The Bureau fostered the idea that sanctions should be imposed only after a rational cost-benefit analysis in which expected gains are weighed against costs to other domestic, foreign policy, humanitarian or commercial interests.

Conclusion

From 1993 to 2000, economic growth averaged four percent per year. The economy grew an average of four percent a year and created more than 22.5 million jobs, the most ever under a single administration, and 92 percent of those jobs were in the private sector. Unemployment dropped from 6.9 percent in 1993 to 4 percent in 2000.

International economic policy made an important contribution to this successful record: Jobs supported by American exports grew by 1.4 million between 1994 and 1998, and export-related jobs paid, on average, 13 to 16 percent more than other jobs. Open markets and global competition also helped keep prices low—an average of 2.5 percent, the lowest rate since the Kennedy administration. Foreign direct investment in the United States increased dramatically from $45 billion in 1994 to $271 billion in 1999 when the United States received almost one-third of total global foreign investment flow.

The United States was more interconnected with the world than ever; that interconnection has generated prosperity and interdependence. The new economy transformed old ways of doing business and magnified the political and social impact of economic decisions. The political stability linked to long-term economic growth made the world a safer and more prosperous place to be.