Promoting Prosperity at Home and Abroad

Recommendations

American Foreign Service Association

QDDR Working Group on Economic, Commercial and Development Diplomacy

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Promoting Prosperity at Home and Abroad: Strengthening the Contribution of Economic, Commercial and Development Diplomacy to U.S. Foreign Policy

INTRODUCTION

The success of U.S. foreign policy over the next decade will depend crucially on the ability of the United States to deliver prosperity at home and abroad and to work constructively with the U.S. and international business communities. Our premises:

- **Economic recovery is Job 1.** The U.S. economy and most of the global economy are still recovering from the worst crisis since the Great Depression. A priority for U.S. foreign policy should be to establish, reinvigorate and sustain international economic policies and institutions that will ensure durable and sustainable economic growth throughout the world.
- **Military strength rests on economic strength.** U.S. security policy and military strength depend on strong and growing economies in the United States and our allies and friends.
- **Economic tools can promote non-economic goals.** Many U.S. foreign policy priorities do not appear overtly economic in nature, but most can be advanced by – and require – effective use of economic carrots and sticks.
- **Our partners value our economic prowess.** America's most important foreign policy relationships involve countries and peoples whose economic aspirations are paramount. The United States matters if we can affect the achievement of their economic and development goals. Plus, economic growth and development abroad can support prosperity at home: Countries that once received significant U.S. development assistance, such as India, Brazil and South Korea, have emerged as strong markets for U.S. products.
- **U.S. business as a crucial foreign policy partner.** The U.S. private sector must compete internationally to succeed. State Department insights and support in foreign markets are crucial to business' ability to deliver prosperity and develop constituencies that sustain the Department's political support at home. At the same time, the State Department and other foreign affairs agencies increasingly need partnerships with business to achieve many foreign policy goals.
- **Climate policy requires an economically-informed international framework.** Many of the most vitally important environmental policy issues – especially climate policy – can be effectively addressed only through economically sophisticated international frameworks.

KEY RECOMMENDATIONS

- **The Secretary should actively lead integration of international economic policy and foreign policy, ensuring that economic policy, including development policy and commercial services, stands equal with geo-strategic and political-military interests.**
- **Career tracks must strengthen the capacities of career officers.**
- **Economic and development policy should advance other foreign policy goals.**
- **Economic policy must be integrated into other department bureaus.**
- **Organization of the "E Family" should be further improved.**
- **Strengthen the organization of economic policy in USAID.**
- **Business advocacy and cooperation should be a top priority for the State Department.**

DISCUSSION

1. The Secretary should actively lead the integration of international economic policy and foreign policy, ensuring that economic policy, including development policy and commercial services, stands equal to geo-strategic and political-military interests.

A. The Secretary must work more closely with the President, NSS and Treasury to manage international economic policy.

The USG agencies most involved in promoting prosperity abroad must work together effectively. The interagency process must produce coherent policy initiatives and execute them in a manner consistent with the State Department's primary role in the implementation of foreign policy. The Secretary should work with the President and key Cabinet colleagues to establish interagency processes that make effective use of the Department's international economic policy capabilities.

- Close State-Treasury cooperation is vital to the prosperity agenda. The coordinated efforts of the United States' key foreign relations and economic policy agencies are needed to ensure a strong, enduring global recovery. The Secretary of State should work with the President, the Secretary of the Treasury and the National Security Advisor to ensure that international economic policy is formulated and implemented coherently.
- The Secretary of State and the Secretary of the Treasury should meet regularly, accompanied by the Under Secretary for Economic Growth, Energy and the Environment, and other officials, to discuss major issues affecting global political, economic and developmental stability. Collaboration between Treasury and State on international economic and financial issues must be consistently strong. Responses to the international financial crisis and euro crisis might have been more robust if

cooperation among Treasury, the State Department and U.S. embassies in the field had been tighter.

- The G20 has become a major international relations forum to set a broad range of international economic and development policies. The State Department should make a larger contribution to the work of the G20, supporting the NSS and working alongside Treasury, similar to the manner in which the State Department works in the G8 process.

B. The Secretary and his team should coordinate more closely with USTR and Commerce.

- **USTR.** The Secretary should promote a stronger, more balanced partnership with the U.S. Trade Representative, especially on politically important major negotiations such as Trans Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (T-TIP) and other trade negotiations. At present, State Department officers are underutilized and primarily play the role of supporting staff; the roles must be better balanced. If the Department establishes special negotiator positions, these individuals should report to the Under Secretary of State for Economic Growth.

- **Commerce.** The Secretary should work closely with the Secretary of Commerce to reinvigorate advocacy on behalf of U.S. business. Embassy engagement is crucial to promote U.S. exports and attract inward investment. The Department should upgrade its support for business advocacy and outreach. The Commerce-State division of overseas responsibility for export promotion and investment attraction must be managed carefully in Washington, especially as Commerce's resources for business advocacy shrink. The Under Secretary for Economic Growth should coordinate regularly with Commerce counterparts.

C. The Secretary and USAID should lead on international development policy.

The Secretary of State should give high priority to his role as the cabinet-level leader of U.S. development policy. The Secretary and the USAID Administrator, working with leaders of other U.S. development agencies, should establish more rigorous informal and formal processes to leverage the government's international development expertise and programs and set an overall USG development framework:

- **State and USAID should continue coordinating strategic planning**. This should occur at both the regional and functional Bureau levels to promote sound economic development, leading to strengthened relationships and cooperation at both strategic and operational levels within Embassies and across country teams. USAID and State can collaborate more effectively on reaching out to emerging donors to share experience and shape their future plans and programs.

- **MCC coordination.** The Secretary of State is Chairman of the Board of the Millennium Challenge Corporation (MCC) and the Administrator of USAID is a Director. The Under Secretary of State for Economic Growth should serve as point person for preparing for the Secretary and the Department on

MCC issues. USAID and MCC should work with State on collaborative strategic planning, particularly in the context of MCC Threshold Programs, Compacts and follow-on Compacts, helping to ensure effective coordination with ongoing USG and other development initiatives within MCC countries.

- **Multilateral Development Banks**. The State Department and USAID – working closely with the U.S. Executive Directors' Offices, Treasury and MCC – should establish greater synergy in the multilateral development banks. We should enhance the ability of USAID and MCC to engage in partnerships with MDBs that enable shaping of development policy to further economic policy.

- **Collaboration on Overseas Private Investment Corporation (OPIC)**. Both State and USAID serve on the Board of Directors of OPIC and can refine already good collaboration to ensure integration of all foreign policy objectives, including economic and development policy objectives.

2. Career tracks must strengthen the capacities of career officers.

- <u>Career tracks</u>. The State Department and USAID must support career tracks that allow economic and development officers to progress to senior leadership positions in Washington and abroad. Currently there is no FSO in any of the senior leadership economic positions at State, an all-time low in our experience. A cadre of strong economic and commercial officers who can compete for E family leadership positions, aspire to serve as Ambassadors and DCMs, and be credible interlocutors for foreign ministries of finance, commerce, trade and development are critical to our national interests.

- <u>USAID</u>. USAID officers should be encouraged to build on their development experience, promote private sector partnerships and strengthen the economic component of American foreign policy. This can be especially useful as countries move along the continuum from development to commercial relationships. Senior USAID management in Washington should actively promote opportunities for career USAID officials to serve in high ranking positions, both in Washington and abroad.

- <u>Details</u>. State and USAID advance their complementary missions and create a more cohesive work force by expanding the number of detail assignments in both directions and ensuring that these opportunities are (a) encouraged and acknowledged in performance precepts and assessments, and (b) include positions that are truly substantive. State and USAID should invest in the professional development of economic officers by creating more detail assignments to federal economic agencies, IFIs, regional development banks, international and multilateral organizations, think tanks, state and local governments, and private companies.

A. Training to strengthen the capabilities of career officers.

The Department and USAID should update economic, commercial and development training at NFATC for economic and development staff, and ensure that non-economic staff receive sufficient training to support U.S. business and use economic tools to advance foreign policy.

- State should implement training that focuses on international economic policy issues that Department officials must address, including on how businesses make decisions, and how to support U.S. business. In addition to the current course directed at first and second tour economic and political officers, short courses should focus on the needs of higher level officers assigned to more specialized positions, and on non-economic cone officers. Individual courses on international finance, development, investment, and various trade policy issues should be designed and taught by professionals to provide officers a solid grounding in the substance of the positions they will occupy.

- The Human Resources Bureau should work with the Bureau of Economics and Business Affairs and regional bureaus to identify the training needed for each economic/energy-related overseas position and build that into the assignment process as required training for any officer or locally engaged staff in that position.
- The Department should increase its use of distance learning courses to allow a greater number of economic and non-economic professionals to acquire training in economic and commercial issues.
- USAID training should reflect a strong understanding of the dynamic between development issues and economic growth, including with respect to both policy dialogue and pragmatic, hands-on project management. State and USAID officers should both enroll in courses on international economic policy issues, providing opportunities to better understand the ways in which USAID private sector officers and State economic officers can work together to advance common objectives.

B. Increase incentives for career officers.

Incentives matter. Within the State Department, promotion board and performance pay precepts should highlight the importance of substantive expertise and tangible accomplishments in promoting prosperity at home and abroad. E and the E family Assistant Secretaries should give priority to awards for economic and commercial work, and should consider expanding awards to include annual economic and commercial awards by region. USAID promotion precepts should similarly acknowledge the strong links between economic growth and successful development, rewarding those who successfully promote public-private partnership as well as cooperation on these issues within the donor community.

3. Economic and development policy should advance other foreign policy goals.

A. New mechanisms must integrate economic and development policy and programs into foreign policy initiatives. The Secretary has made clear that most major foreign policy initiatives need to integrate economic policy dimensions. The Presidential Policy Directive on Global Development emphasizes that, "Economic growth is the only sustainable way to accelerate development and eradicate poverty." Economic carrots and sticks are a critically important aspect of policy initiatives towards Iran, Egypt and the Middle East Peace Process; the New Silk Road Initiative aimed at promoting ties between South and Central Asia also contains a strong economic component.

B. **An effective policy formulation process should ensure that the E family works closely with P, S/P, regional bureaus and others who may play central roles in the policy formulation process.** Any consideration of new economic sanctions should be accompanied by a careful analysis of the impact on the U.S. economy and other 'collateral' victims.

C. **The State Department should lead certain economic policy dialogues.** Bilateral economic dialogues can be an efficient means of intensifying economic and development relations. In cooperation with the White House, the Under Secretary of State for Economic Growth and the Assistant Secretary of State for Economic and Business Affairs should chair interagency teams that engage in economic dialogues with key partners to contribute to our overall foreign policy objectives. Collaboration with the private sector should be pursued.

4. Economic policy must be integrated into other Department bureaus.

A. **Regional bureaus.** Regional bureaus at State need to include a focus on economics. Normally there should be a DAS with bureau-wide responsibility for economics. The Under Secretary for Economic Growth and the E family Assistant Secretaries should meet regularly with these regional economic coordinators both to gauge progress on current priorities and ensure that the various assets of the United States are being effectively deployed within that region. Similarly, in regional bureaus with major development issues, a DAS should be responsible for ensuring that economic development issues are integrated with economic policy priorities. To support their economic policy DASes, regional bureaus should consider creating economic policy offices similar to WHA/EPSC and AF/EPS, which are effective because they focus on integrating economic and foreign policy within each bureau.

B. **Functional bureaus.** Other Bureaus with a significant economic impact, including Consular, IO, DRL and INL, should focus on the economic, commercial and policy dimensions of their work.

5. Organization of the "E family" should be further improved.

The State Department should further strengthen the organization of Bureaus and Offices devoted to economic policy. The revised structures created in conjunction with the first QDDR were directionally very positive. The Department should build upon and improve that basic framework.

A. **The Under Secretary provides overall leadership, especially on major issues that cut across bureaus.** The Under Secretary of State for Economic Growth, Energy and the Environment must provide strong leadership and oversight to EB, OES and ENR. The Under Secretary can also bring needed leadership to critically important issues that cut across bureaus and departments and are crucial to U.S. foreign policy objectives; these include:

- **Promoting innovation and competitiveness.** Innovation and competitiveness are essential for the United States to generate high and rising standards of living. Policies to promote innovation lie at the intersection of science, technology and economics. The Under Secretary should work with the Chief Economist, the Science Advisor and relevant bureaus to identify and drive forward a State Department innovation and competiveness policy agenda in close coordination with USAID's initiatives in these areas.

- **Managing Arctic policy.** OES, EB and ENR are well placed to address the important policy issues raised by changes in the Arctic, including the opening of maritime routes and the potential for resource development. The Under Secretary should draw on these resources to drive forward the policy process.

- **Updating the MDGs.** A major revision of the Millennium Development Goals is beginning in the United Nations. The Under Secretary – working with USAID, Treasury, other agencies and the Departments IO and EB bureaus – should drive U.S. policy on this topic.

- **Fighting corruption.** The State Department and USAID should place major emphasis on the importance of controlling corruption, encouraging sustainability and promoting good governance. The Under Secretary of State for Economic Growth should work to integrate the anti-corruption policies and programs of EB, INL and DRL. USAID and State should cooperate to strengthen institutions, ensure sustainability and promote good governance, including by working with MCC officials active in MCC threshold programs.

B. The Chief Economist and the Science Advisor should report to, and strengthen, the Under Secretary for Economic Growth.

- **Chief Economist.** To achieve its full potential, the Chief Economist should report directly to E (rather than directly to S), as a member of the E team, and that office's work should be integrated with the work of E, EB, and other functional and regional bureaus. This would permit the Chief Economist more effectively to inject policy relevant economic perspectives into practical policy making. This office should include a mix of both Ph.D. economists with expertise on the policy side of international economics and foreign policy, as well as Foreign Service and Civil Service officers with deep economic expertise. The Office should engage directly with the USAID Chief Economist. In cooperation with EB and E, the Chief Economist should establish close ties with the Council of Economic Advisors, research branches of other agencies, Congress and the Federal Reserve. S/he should address energy diplomacy goals, in light of growing U.S. prominence as an energy producer and a leader in new energy sources.

- **Science Advisor.** The Under Secretary should help ensure that the Science Advisor plays an effective policy role as an important contributor to the work of the National Academy of Science, White House's Office of Science and Technology Policy (OSTP), and important issues such as climate policy, international policy on AIDS and food security.

C. Revamp the organization of the Bureau of Economic and Business Affairs.

- EB should continue to improve coordination with regional bureaus. EB's Regional Working Groups should coordinate efforts and planning regularly with the DAS in the relevant regional bureau with responsibility for economic diplomacy.

- In line with our recommendations that the Department play a strong role in the G-20, on development policy and in international investment policy, the role of EB's Office of International Financial Development (IFD) is crucial. The Department should consider adding officer positions to IFD and improving training to strengthen the Department's capacity to be a stronger partner of USAID, Treasury and others.

- With respect to business advocacy and partnerships with the business community, the Department should strengthen the commercial function, including by increasing the allocation of positions and budget to it. EB's Office of Commercial and Business Affairs (CBA) could be expanded and divided into an Office of Export Promotion and Commercial Services and an Office of Entrepreneurship and Innovation Programing. The first office would continue to lead the Department's efforts to expand exports and attract foreign direct investment to the United States, support our non-FCS posts' provision of standard services to American businesses, and coordinate with FCS and other USG agencies in these efforts. The second would work closely with the U.S. business community to devise new services that support cutting-edge American international business processes. We recommend consideration be given to placing the commercial functions of the Office of Global Intergovernmental Affairs under the Coordinator's leadership. Unifying export promotion efforts under CBA's leadership would create positive efficiencies for the Department and U.S. business.

D. Enhance organization of the Bureau of Oceans. Environmental and Scientific Affairs.

OES has strong programmatic capabilities and is responsible for a number of issues of great importance for the country. The Department's ability to play a strong role on such issues – climate issues, Arctic policy and the like – would be enhanced by integrating the Bureau's programmatic capacity with the policy leadership of the Under Secretary.

6. Strengthen the organization of economic policy in USAID.

Strong, effective development partnerships should help pave the way for the emergence of equally stronger commercial relationships that benefit all parties. The recent reorganization of USAID's Bureau for Economic Growth, Education and the Environment (E3) resulted in a fragmented organization that complicates promotion, sharing and integration of economic and private sector development policies and programs. The creation of new entities related to food security, Afghanistan-Pakistan, global climate change and other important initiatives has further strained the human and financial resources available for economic growth-related programming. Private Enterprise Officers have dramatically declined and, due to E3's reorganization, no longer have a logical "support" Office to promote their role and programs. The Administrator should appoint a team to analyze, and consult with State EB on, USAID's capacity in this area, focusing on the ways in which it can contribute to policy reform while also promoting private sector development.

7. Business advocacy and cooperation should be a top priority for the State Department

- The Secretary and the top State Economic leadership should ensure that advocacy for U.S. business is a top priority for all Bureaus, Ambassadors and Embassies. The E family should work closely with other foreign affairs agencies such as the Foreign Commercial Service and Foreign Agricultural Service. Ambassadors, embassies and bureaus should lean forward to assist U.S. business in all phases, using simple decision-making criteria rather than referring every business advocacy issue to the Department of Commerce Advocacy Center.
    - Instructions for Ambassadors should make bilateral economic policy and support for U.S. businesses a priority.
    - Ambassadors should be empowered to use their judgment to support business abroad. Examples include actively supporting the President's Select USA initiative to attract job-creating foreign investment to the United States; actively combating barriers to U.S. business and helping U.S. businesses that face discrimination in the local market; and supporting foreign investment efforts by U.S. firms, since trade follows investment. They can also support transactions by U.S.-headquartered firms, recognizing that business grows further as relationships are developed, and that U.S. investment can support U.S. political objectives such as increasing U.S. influence and promoting stability. The Secretary, E and top Department leadership should empower the Office of Commercial and Business Affairs (EB/CBA) to coordinate with all Bureaus to increase the effectiveness of advocacy efforts on behalf of U.S. firms competing for international contracts. The Secretary, top Department leadership, and all bureaus must coordinate formal advocacy efforts with EB/CBA to ensure a whole-of-Department effort coordinated with the Interagency Task Force on Commercial Advocacy.
    - The Department should prioritize filling Principal Officer positions in cities of commercial prominence with economic officers.
- The State Department and USAID should give high priority not only to advocacy for enabling business environments, but also cooperation with business to advance U.S. foreign policy goals.
    - The Under Secretary for Economic Growth should engage with business leaders to enlist their support and participation in high priority foreign policy initiatives where private sector skill in analysis and private foreign investment can make a major contribution.
    - The State Department and USAID should seek to leverage private flows – trade, investment, remittances, etc. – to promote foreign policy and advance wider development objectives.

USAID's recent experience in pioneering public-private partnerships aimed at advancing development concerns points to opportunities and offers useful "lessons learned" in this area.

- The Under Secretary for Economic Growth should work with business leaders and his/her Secretary of Commerce counterpart to reform overseas support for U.S. business consistent with new models of international business as they evolve, e.g., value chains, etc. Opportunities exist to partner with foreign countries to identify potential local distributors, advocate for legal, regulatory, and policy changes, and build innovative financial consortia.