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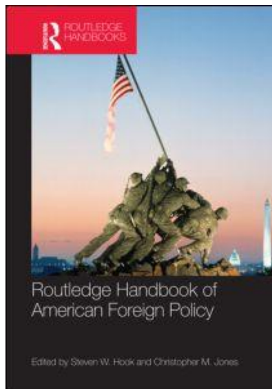

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Global Trade

Terrence Guay

Introduction

Although foreign policy is often regarded as a political endeavor, economics always has been a driving factor in shaping it. Leaders of empires, kingdoms, and countries have a long tradition of seeking to expand trade and investment opportunities on behalf of their constituents. During the last decades of the twentieth-century, trade, finance, and economics assumed even greater importance in the foreign policies of the United States and virtually every other country. Increasingly more complex cross-border linkages, brought on by advancements in technology, the end of the Cold War, and strong economic growth in strategic countries, made the term "globalization" commonplace in corporate board rooms, foreign ministries, and even households.

Global and U.S. trends show just how important trade has become. According to the World Trade Organization (WTO), world merchandise (goods) exports increased from $59 billion in 1948 to $15.7 trillion in 2008. During this period, the U.S. share of world merchandise exports declined from 21.7 percent to 8.2 percent. In 2008, U.S. exports of goods and services totaled $1.8 trillion, while combined imports exceeded $2.5 trillion. In all, trade now accounts for just under 30 percent of U.S. gross domestic product (GDP). These simultaneous trends underscore important elements shaping U.S. foreign policy, including: the gradual decline of U.S. influence in the global economy since the end of World War II and the ascent of new economic powers; the increasing importance of foreign markets for U.S. companies and workers; the global financial imbalances created by persistently large U.S. trade deficits; the importance of multilateral cooperation to structure international trade rules; and the rise of economic matters among foreign policy priorities (Cohen, Paul, Blecker 1996).

These trends are multidimensional and should not be viewed in isolation. Other chapters in this volume make important contributions to our understanding of the importance of economic issues in the formulation of U.S. foreign policy. In this chapter, we review the main theoretical streams that have shaped scholars' approach to the integration of trade and economic matters in U.S. foreign policy. We then turn to some of the most important policy debates that have shaped U.S. trade policy in the past and examine how they may shape its foreign policy in the twenty-first century.

Review of Scholarly Research

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The work of scholars on the relationships among trade, economics, and foreign policy falls within the broad field of international political economy. Much of the realist tradition places primary importance on security and military matters, relegating economic issues to the secondary level. This notion may have blinded policy makers to some extent during the second half of the Cold War period to the major global economic changes taking place. However, even scholars with a realist orientation contend that countries do shape trade and international economic policies in ways that seek to maximize national self-interest.

Realism, as applied to trade policy, is often referred to as mercantilism. Mercantilism traces its roots to the state interventionist policies of France's King Louis XIV and his finance minister Jean-Baptiste Colbert. Colbert bolstered that country's fragile finances by restructuring the tax system and sought to enhance the state's prestige through commerce. He did this through such means as supporting the development of new industries, especially manufacturing, establishing standards for products, imposing high tariffs to protect domestic producers, reducing obstacles to trade among provinces, and improving roads, waterways, and infrastructure. Although Colbert's policies produced a mixed record of success, his philosophy that the institutional machinery of the state should be used to shape economic development to serve the interest of enhancing the country's power became known as "Colbertism"—the French version of mercantilism.

Mercantilism best describes U.S. trade policy from the 1780s to the 1940s. In his 1791 *Report on Manufactures*, the country's first Secretary of the Treasury Alexander Hamilton proposed that high tariffs and support for industry would be necessary to build the young country's manufacturing base. The concern of many U.S. leaders in the late 1700s and early 1800s was that, with low tariffs, more efficient producers in Europe (particularly Great Britain) would have an advantage over smaller and less technologically advanced American producers. Thus, the 1828 "Tariff of Abominations," for example, added about 50 percent more to the price of imported goods.

This view was by no means undisputed within the country. While slavery and states' rights were the primary causes of the Civil War, tariff policy also divided the northern and southern states. Southern interests wanted to lower tariffs so they could import agricultural machinery from Europe. Northern states preferred high tariffs, thereby giving their manufacturing companies less foreign competition in the U.S. market. With the northern states victorious in the war, relatively high tariffs served as an important component of federal government revenues and would be the norm through the Reconstruction period and into the 1910s, at which time the personal income tax was introduced. Tariffs then decreased sharply until the Great Depression, when the infamous Smoot-Hawley tariffs were enacted. Trade policy changed dramatically after World War II, as tariffs began a steady decline for most products up to the present day.

The increasing economic interdependence that the global community has experienced over the past half century is not a positive development for many realist scholars. Interdependence implies vulnerability, at least for some countries under certain economic conditions, and so governments need to develop responses that protect national interests. At the same time, realists tend to see economic power translating to political power at the global level. Thus, countries that accumulate trade surpluses (and the money that brings "home") and can reduce their dependence on other countries for key goods (such as oil, minerals, or high-technology products) are believed to be in a stronger position vis-à-vis other countries. Foreign economic policy, therefore, should be aimed at reducing interdependence unless, of course, such interdependencies lead other countries to become more dependent on the United States.

Hegemonic stability theory suggests that a dominant country, such as the United Kingdom in the nineteenth century or the United States during the Cold War, assumes leadership in a range of issue areas, including trade and economic matters. Proponents such as Kindleberger (1973) believe that a hegemon can maintain order in the global economy, thereby advancing that country's foreign policy interests. For example, the United States during the 1950s and 1960s was willing to run trade deficits with Japan and South Korea because exports from these countries to the United States helped to sustain their economic growth. This was important to the wider foreign policy goals of the U.S. government to contain communism and had minimal effects on the U.S. economy. Likewise, the U.S. dollar was the dominant global reserve currency and provided some stability to financial and currency markets. The concern of current scholars is that the rise of new economic powers impairs the ability of the United States to exert its influence on the global economy, which makes the international system less stable and more detrimental to U.S. foreign policy interests (Gilpin 1987).

In the absence of American hegemony, realist approaches would opt for policies that sustain economic self-interest. The persistent U.S. trade deficit since 1976, which peaked at $760 billion in 2006, would be regarded as an area of weakness, since it implies dollars going abroad and the United States's increasing dependence on imports from countries with which it has other foreign policy concerns. Many realists are concerned that U.S. reliance on imports has "hollowed out" our industrial base, as manufacturing now accounts for only 17 percent of value added to the U.S. economy (with agriculture accounting for 1 percent and services 82 percent). With realists concerned primarily with national security concerns, the decline in domestic manufacturing would be worrisome, since it could make the United States less self-sufficient in the event of global crisis.

In contrast, economic and political liberals long have argued that global trade should be unobstructed by government restrictions. The notion of "free trade" dates to Adam Smith, David Ricardo, and other economic theorists who made the case that all countries are better off if they specialize in producing those goods for which they have a relative advantage. In the twentieth century, other economists built upon these foundations. Eli Heckscher and Bertil Ohlin proposed that each country's comparative advantage is determined by various factors of production, such as labor (e.g., mix of skilled and unskilled workforce), access to capital and strength of financial markets, and land (e.g., fertile land and abundant natural resources). Some recent economic studies calculate the cost of tariffs to run into the tens of billions of dollars (Hufbauer and Elliott 1994).

There also are political reasons to support a foreign policy that advocates a pro-trade agenda. Scholars of political and economic liberalism propose that the establishment of cross-border trade, investment, cultural, and other linkages reduce the likelihood that participating countries will go to war with each other (Keohane and Nye 1977; Doyle 1986). Such thinking provided the theoretical and practical foundations for European integration in the 1950s and has supported the approach taken by many U.S. foreign policy makers seeking to use trade, finance, and other economic "carrots" to draw key countries into the group of capitalist democracies. More colloquially, *New York Times* columnist Thomas Friedman (1999) referred to this as the "Golden Arches theory of conflict prevention," since at that time no two countries with a McDonald's franchise had gone to war with each other. Especially in the years following the fall of the Berlin Wall in 1989, there was an optimistic view of many Americans that the idea of economic and political freedoms would be readily adapted around the world and that U.S. foreign economic policy would support such undertakings.

Although the economic case for unobstructed free trade is strong, there are many political reasons why it does not exist. First, there are many prominent examples of countries that have achieved economic success through the selective application of free trade ideas, and

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sometimes the outright rejection of them. The United States is one obvious example, since the protectionist, high-tariff policies throughout the 1800s and early 1900s helped to protect companies until they had achieved critical levels of economies of scale and scope, and could better withstand international competition. But there have been many more recent examples of countries that have used tariffs and trade barriers, combined with other elements of industrial policies, as part of a "strategic trade policy" (Krugman 1986). The most cited examples are Asian countries such as South Korea, Taiwan, Singapore, and Hong Kong (often referred to as the Newly Industrialized Countries, or NICS), and more recently China (Haggard 1990).

The idea behind the "East Asian Miracle" is that governments implemented a combination of policies, including structures to allocate scarce capital to "national champion" companies, which would employ an increasingly better educated and skilled workforce to produce goods for export. This export-driven strategy provided jobs for millions of citizens entering the workforce, brought in foreign currencies, and established footholds in foreign markets. Although some scholars (Krugman 1994) argue that the trade and industrial policies of East Asian countries are more myth than miracle, and that for every example of a successful company like Samsung or Toyota there is a state-supported failure, the East Asia region has been far more successful in achieving rapid and high levels of economic growth than just about any other region of the world. The implications for U.S. trade policy are two-fold: policy makers have had a difficult time persuading such countries to open their markets for U.S. exports, and the United States has imposed tariffs and other protectionist policies to reduce the flow of imports and support ailing and less competitive domestic firms.

More critical approaches of U.S. trade and foreign economic policies contend that such policies aim to preserve U.S. power at the expense of less developed countries. Drawing on elements of Marxist theories, critical themes focus on issues of dependency (Cardoso and Faletto 1979) and the structure of the "world system" (Wallerstein 2004). Such explanations of the global political economy suggest that industrialized countries have created a variety of policies and institutions that preserve global economic and wealth disparities. These policies were pursued during the centuries of colonialism, whereby higher-value manufactured goods were exported to the colonies, and lower-value raw materials, agricultural products, and (for a time) slaves were shipped to the United States and Europe. Even the decades of decolonization following World War II, so this argument goes, saw little change in the economic fortunes of Latin America, Africa, and much of Asia (see ch. 8 for an elaboration).

American trade and international economic policies support broader foreign policy interests (Litvin 2003). Thus, some scholars would point to the role of the Central Intelligence Agency (CIA) and State Department in supporting an overthrow of Guatemala's democratically elected government in 1954, at the request of the United Fruit Company, which feared that the government's land redistribution program would adversely affect the largest landowner in the country. The U.S. efforts also were in line with the general containment policy with respect to communism. Guatemala's government was socialist, but parts of the U.S. foreign policy apparatus believed that communism would spread throughout Central America if the Guatemala government were not overthrown. Similarly, the CIA and United Kingdom's intelligence service engineered a coup in Iran in 1953, after that country's government nationalized the oil industry. American and British oil companies benefitted from the newly instated government, and the U.S. provided military and financial aid to the country until the Iranian Revolution ousted the pro-American shah.

Although the end of the Cold War has eliminated the twin foreign policy goals that combined the expansion of U.S. economic interests with containing communism, critics contend that less blatant but equally detrimental policies remain in place. Since their founding in 1944, the World Bank's president always has been an American, while the head of the International Monetary Fund (IMF) has been a European, even though both organizations'

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programs support almost every country in the world. In matters of global trade, the General Agreement on Tariffs and Trade (GATT) and World Trade Organization (WTO) have made dramatic reductions in the tariffs of most manufactured goods. This benefits U.S. and other Western companies, which have dominated global production and trade of these products. However, there has been less progress in reducing tariffs on agricultural goods, where developing countries often have a comparative advantage. To make matters worse, the United States, the European Union, and other rich countries distort global agriculture markets by subsidizing their farmers, providing financial support for exports, and utilizing other policies that often depress prices and incomes in poor countries.

The influential role that the United States plays in the Bretton Woods organizations provides additional ammunition for critics (Stiglitz 2002). During the 1990s, the IMF, the U.S. Treasury Department, and other like-minded bodies developed the "Washington consensus," strongly encouraging developing countries to adopt market-based policies, including lowering trade barriers, removing capital controls, privatizing state-owned enterprises, providing favorable conditions for foreign investment, deregulating, and balancing government budgets. Critics contend that such policies not only contributed to the 1997 Asian and 1998–99 Latin American financial crises, but that similar measures the IMF (with the support of the United States) imposed on countries in return for financial assistance to respond to the crises exacerbated the human suffering in terms of unemployment, lower incomes, and reductions in spending on education and health care. The "one size fits all" prescription that the United States, developed countries, and international organizations tend to advocate may not be suitable for countries in other stages of development, with different labor skill sets, weaker public institutions, and a host of other unique factors. The pursuit of foreign economic policies in line with Washington consensus thinking, critics argue, preserves the vast differences in wealth and power in the global order.

Finally, other scholars have focused their work more broadly than global trade to encompass issues of international economic competitiveness. They are interested in the set of foreign and domestic policies that will maximize the living standards of American citizens. As such, their recommendations overlap many of the themes above. Some advocate policies akin to strategic trade theory, suggesting that the United States needs to implement the best parts of other countries' industrial policies and adapt them to the unique features of the United States (Tyson 1992; Prestowitz 2005). Others focus more on domestic policies that they feel will enhance international competitiveness, such as education and worker training (Reich 1991). Still others argue that increased global competition provides valuable benefits to the U.S. economy, but that certain industries and their workers are adversely affected. Consequently, they propose establishing broader social policies (e.g., job retraining and tax revisions) that would compensate globalization's "losers," thereby mitigating their opposition to trade and pro-market policies (Rodrik 1997; Scheve and Slaughter 2007). Still others recommend a mix of domestic and foreign policies to garner support at home and abroad for U.S. global economic, political, and security interests (Lincoln 2007).

Enduring Policy Debates

International trade and economic matters have shaped U.S. foreign policy since the country's founding. The focus in this section is on four policy debates that have been prominent over the past half century and will be particularly important in the coming decades: the role of international organizations and trading blocs; the changing nature of global trade; the influence of new competitors in the global economy; and the impact of globalization on the formulation of U.S. trade and foreign policy. These four policy areas should not be viewed

in isolation, but rather should be seen as part of the increasingly complex nature of the global political economy.

International Organizations and Regional Trading Blocs

The conduct of global trade policy involves far more than simply deciding the level of tariffs. One of the most important decisions is the appropriate forum for trade negotiations. The United States engages in multilateral, bilateral (sometimes regional), and unilateral trade arrangements, although the latter generally refers to economic sanctions. The GATT was established in 1947 as a multilateral initiative to reduce tariffs among member countries. Over the next forty-seven years, membership expanded and tariffs were reduced significantly on a wide range of manufactured goods, but tariffs remained much higher on the cross-border trade of services and agricultural products. The GATT was replaced in 1995 with the WTO and now counts 153 countries (including the European Union) as members. One of the most important differences between the two organizations is that GATT decisions on trade disputes were non-binding, meaning offending countries could ignore them. The WTO provides a dispute resolution process that allows countries to impose retaliatory tariffs if offending countries refuse to remove their tariffs. This power is quite controversial, especially for American companies and citizens who oppose surrendering sovereignty to international organizations like the WTO.

As of May 2010, 109 cases were on file against the United States accusing the government of violating international trade rules, and were in various stages of resolution. This was far higher than the second-place European Union, which was the respondent in sixty-seven cases. The disputes represent instances in which other countries believe the United States is protecting domestic business interests in ways that contravene the country's commitment to WTO rules. But for companies or workers in domestic industries that benefit from these actions, such as the steel, automobile, or certain agriculture sectors, the WTO and its commitment to non-discrimination on imports represents a threat. It is not surprising, then, that Congress and the president may support policies that clearly violate international trade. This may be done to appease key interest groups or to buy time for less internationally competitive industries to restructure during a WTO's dispute settlement process, which can take months or even years to conclude (Barton and Goldstein 2006).

A second approach to international trade is bilateral initiatives. The WTO requires unanimous approval from its members to complete trade negotiations. Clearly, with three-quarters of the world's countries, each at different stages of economic development and with their own national priorities, achieving consensus is oftentimes the WTO's major obstacle, as the uncompleted Doha Round of trade talks (begun in 2001) illustrates. Bilateral trade agreements offer the advantage of a relatively easier bargaining process, since only two countries are involved, or a limited number of countries in the case of the North American Free Trade Agreement (NAFTA) or Central America Free Trade Agreement (CAFTA). Another advantage of such agreements is that a large country like the United States can use access to its large market as leverage to gain greater concessions from smaller countries.

It is important, however, to view trade agreements in a larger context. The GATT was an important element of the 1944 Bretton Woods conference that sought to create a neoliberal global economic order to avoid the protectionist policies implemented by many countries in the 1930s. The WTO sought to consolidate these trade gains and expand membership to formerly communist countries in the years following the end of the Cold War. Likewise, NAFTA and CAFTA have national security dimensions insofar as expanding trade and investment linkages in the Western hemisphere may provide political stability to the region

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and perhaps slow migration flows to the United States. It is important, then, to understand that international trade agreements serve a broad range of U.S. foreign policy objectives (Schott 2004).

Changing Nature of Global Trade

Global trade is increasingly complex, creating a range of policy decisions for the United States and other countries. Trade is seldom as simple as deciding whether to impose tariffs on certain goods and what their rates should be, and trade policies are rarely made without considering their impact on numerous other foreign and domestic policies. While the GATT and WTO made huge strides in reducing tariffs, they have done less well in removing non-tariff barriers (NTBs). These include obstacles such as quotas (limitation on the quantity of foreign goods that are permitted to enter a country), requirements that government bodies procure from domestic companies (e.g., "Buy American" requirements of some spending bills), onerous customs procedures that delay the availability of imports, different product standards, export subsidies, and other measures that give domestic companies advantages over foreign producers. While some of these barriers may have legitimate purposes, such as a country's desire to have more stringent health, safety, or environmental regulations, many are blatant tools aimed at reducing imports. Given the complexities and political opposition involved with harmonizing national regulations on a range of trade-related areas, the GATT and WTO have focused their attention on tariffs, which are more transparent. Yet the United States and every other country use NTBs to varying degrees to protect domestic companies.

The web of global economic relationships devised by multinational corporations is changing trade patterns in fundamental ways. Related-party trade refers to trade that takes place between subsidiaries of a company. Data from the U.S. Commerce Department show that in 2009, 48 percent of U.S. merchandise imports and 29 percent of exports consisted of related party trade. Examples would include, for example, Toyota exporting automobile components from Japan to its U.S. production facilities or Boeing subsidiaries in Canada shipping parts back to the company's production plants in the state of Washington. Over the past decade, related-party trade accounted for about 41 percent of all U.S. merchandise trade. This development of trade patterns is a result of the complex investment and supply chain links that companies have developed around the world. But it complicates the making of U.S. trade policy, since the imposition of tariffs and NTBs by the U.S. government may, in fact, penalize American companies. Likewise, efforts by U.S. trade negotiators to persuade another country to lower its tariffs may indeed help American companies shipping parts into that country, but not necessarily U.S. workers, if the parts were manufactured elsewhere.

In addition to the WTO and regional trade agreements, numerous other international organizations structure the workings of the global economy. The IMF supports countries experiencing temporary payment imbalances, and the World Bank provides loans to support economic growth in developing countries. Both of these organizations date to the 1944 Bretton Woods conference that created the GATT. The G-20 was established in 1999, but took on a much higher profile in 2008 in the wake of the global economic crisis. Comprised of the United States, Canada, Japan, four European countries plus the European Union, Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, and Turkey, the G-20 represents 90 percent of global GDP, 80 percent of world trade, and almost 70 percent of the planet's population. Unlike the IMF and World Bank, the G-20 does not have a headquarters or institutional bureaucracy but instead provides a forum for the leaders of the world's major economic powers to discuss developments in the global economy and appropriate policies for its stabilization.

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While it is not yet clear whether the G-20 will assume a more substantive role in global economic matters, it is apparent that the plethora of international organizations described here, as well as the numerous United Nations bodies that deal in some capacity with trade-related matters (such as the International Labor Organization, UN Conference on Trade and Development, and UN Environment Program) present a complex, in some ways overlapping and deficient structure to address issues in the global economy. In turn, U.S. foreign policies are constantly adapting to this environment. For example, the issue of climate change presents challenges to virtually every country's economic policies. This is especially true of the United States—the world's largest economy and, until 2009, the biggest emitter of carbon emissions. American foreign policy has struggled to reconcile the objectives of addressing climate change, while minimizing the impact of more stringent regulations on the economy. The U.S. Senate did not ratify the 1997 Kyoto Protocol, in part because of concerns about the effect on the economy, but also because China, India, and other rapidly growing countries were not obligated to reduce their emissions.

An important component of this issue is the intricate link between trade and investment. Between 2005–08, China attracted $337 billion of investment from U.S. and other multinational corporations—more than any other emerging market. Many of these companies are exporting back to their home and other global markets. While there are numerous reasons why companies choose to invest in China, pollution from their manufacturing facilities is counted as part of that country's carbon emissions. Some scholars describe aspects of foreign investment flows as a "race to the bottom," as governments compete with other countries to attract investment by offering weaker environmental, labor, health, product safety, or other standards (Tonelson 2000). The point is, it is becoming increasingly difficult to disentangle the links between trade and investment with other social policies, which presents difficulties for the United States to present a coherent and consistent approach to global trade and the issues connected to it.

Finally, because trade is linked to finance, the workings of the international financial system are a critical component of trade policy. This was most evident during the global economic crisis that began in 2008, when poor decisions by many international banks precipitated a recession. As a result, global trade declined 12 percent in 2009, adversely affecting many companies and workers in export-oriented industries. But trade also is influenced by currency values, and part of U.S. foreign economic policy focuses on addressing the value of other currencies. When the dollar is cheaper relative to other currencies, American exporters benefit while importers face higher prices. For large ticket items like airplanes, a small difference in the exchange rate between the U.S. dollar and the Euro can have an impact in the billions of dollars (or Euros) for Boeing and Airbus.

Thus, at various times, the U.S. government uses policy tools to try to affect the dollar's value. But because the value of the dollar "floats" on currency markets, financial centers like New York, London, Frankfurt, and Tokyo ultimately determine the value of U.S. dollars and other currencies based on supply, demand, and future expectations. However, for some currencies, most notably the Chinese Yuan, exchange rates are set by the government. The Chinese government's policy has been to establish an artificially low value for the Yuan, since it makes Chinese goods cheaper abroad, thereby promoting exports and providing jobs for millions of Chinese workers.

This policy has strained China's political and economic relations with the United States, which views a cheap Yuan as an unfair trade advantage benefitting China. In 2009, the United States imported $296 billion of goods from China—19 percent of all imports. The United States had a $501 billion deficit in the trade of goods that year, but China accounted for $227 billion (45 percent) of that deficit. China has used much of its foreign currency earnings to buy U.S. Treasury securities, and is the largest foreign holder with about $900 billion worth

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of Treasury bills, notes, and bonds. Many observers believe that this imbalance in the global economy—massive U.S. trade deficits matched by large Chinese holding of foreign (mainly U.S.) investments—is unstable and presents U.S. officials with difficult choices in managing U.S.-China relations in the coming years across multiple issue areas (Schaller 2002; Goldstein and Lardy 2008).

Competitors in the Global Economy

Of all the issues that will shape U.S. trade policy in the coming decades, the rise of new competitors is the most important. Since the 1980s, approximately "3 billion new capitalists" have entered the global economy (Prestowitz 2005). These include countries that were once part of the Soviet Union and most of central and eastern Europe, which have transformed themselves into market-oriented economies with varying degrees of success. But the most significant entrants are India and especially China, which bring a combined population of nearly 2.5 billion people to the global economy. The policies gradually implemented under Deng Xiaoping in the late 1970s unleashed tremendous economic growth over the next three decades. By 2009, China became the world's largest exporter, surpassing Germany and the United States—the two countries that had topped the rankings for decades. By many projections, China's GDP will surpass the United States by 2030.

While China focused on manufacturing to leverage its economic growth, India has become better known globally for its service sector, especially computer programming, business process outsourcing, call centers, and high-technology services. While the magnitude of growth has been less impressive than China's, India implemented its economic reforms only in the early 1990s—about 15 years after China. Still, Indian multinational corporations such as Infosys, Reliance, Tata, and Wipro have assumed an impressive global reach, acquiring well-known Western companies like Corus Group (steel), Jaguar and Land Rover (automobile), and other firms in the pharmaceutical, media, and natural resources sectors. The acronym "BRICs" entered the foreign policy and business communities in the early 2000s, and refers to Brazil, Russia, India, and China—perhaps the four most promising countries at the time in terms of their economic potential. Brazil, the largest economy in Latin America, made many economic reforms in the 1990s to lay the groundwork for economic growth and stability, while Russia, despite a patchy record in its post-Cold War political and economic reforms, has become a major supplier to the global economy of natural resources, especially oil.

The remarkable success of the BRICs and the potential of countries like Mexico, Indonesia, and South Africa, has transformed the global economy in fundamental ways and presents the United States with numerous foreign policy dilemmas. First and foremost is the question of whether the rise of the BRICs and other countries presents threats or opportunities for the United States. The end of the Cold War led some to argue that capitalism and democracy had become universally accepted values (Fukuyama 1992). Events since then suggest that the world has changed in fundamental, but clearly not uniform, ways. China has embraced elements of capitalism that suit the government's economic development strategies, but ignored others. About 40 percent of the economy is comprised of companies owned by national or local governments, and strategic industries such as banking, media, aerospace, and automobile prohibit or restrict foreign investment. As for politics, the Chinese government remains largely authoritarian with limited individual liberties.

To the extent that economic growth leads to political influence, the rise of new global economic players may interfere with other U.S. foreign policy objectives. With large amounts of natural resources, Africa has become an attractive location for Chinese, Indian, and Brazilian companies to invest (Brautigam 2009). Twenty percent of Africa's total trade is with the four

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BRICs. For the United States, Africa's resources, particularly energy, are important inputs for the U.S. economy. But the United States also has interests in African countries that provide favorable conditions for terrorists, piracy on the Horn of Africa, internal conflicts, and health issues like AIDS. To the extent that African governments may become more sympathetic to the interests of individual BRIC countries, U.S. economic, political, and security interests on the continent may be compromised. Africa and Asia are not the only regions where the United States may be facing new challenges. Some observers argue that the United States has passed its apex as a global power, in large part because of its military and security commitments (Kennedy 1987). While the 1990s offered a time when the United States was the world's "lone superpower," that period has been eclipsed by new challenges from the BRICs, EU, and other global entities, as well as domestic pressures.

Other scholars are more sanguine about the opportunities that the rise of the BRICs and other countries provide for U.S. foreign policy interests (Zakaria 2008). The fact that almost every country in the world has embraced some elements of a market economy demonstrates the success of American soft power, or the ideas and values that define the United States (Nye 1991). The phenomenon also provides markets for U.S. goods and services, revenues for the U.S. companies that offer them, and jobs for American workers who produce them. Such thinking places less emphasis on the relative position of the United States in comparison to other countries—a theme that concerns realists who tend to prefer foreign economic policies that preserve U.S. dominance in the global economy even if they slow economic growth.

Globalization and Its Critics

Globalization is perhaps the most popular theme in the international affairs literature of the past two decades, and numerous books exist on the subject. Its impact on U.S. foreign policy is both outward and inward. Changes in the global political economy (e.g., the rise of the BRICs, changing patterns of corporations' trade and investment) outlined above play a significant part in how U.S. trade and foreign economic policy is constructed. But so, too, does domestic public opinion. In recent years, the mood of the average American is swinging away from support for globalization and much of what it encompasses.

According to the Pew Research Center, the trend in developed countries with respect to trade "is clearly headed in a negative direction," and "the ebbing of enthusiasm has been particularly dramatic in the United States" (Kohut and Wike 2008). In the forty-seven-country 2007 Pew Global Attitudes survey, the percentage of people saying trade is a good thing (59 percent) was lowest in the United States. The United States also experienced the largest decline in support for trade since the 2002 survey, when 78 percent of Americans said trade was good for their country. By 2008, only 53 percent of Americans felt that growing trade ties were good for the United States (Pew Research Center 2008). Similar surveys by the German Marshall Fund (2006) find similar results. Fifty-six percent of Americans believed that trade barriers should be kept in place because they protect U.S. businesses, even if it meant forgoing economic growth. The survey also showed that 59 percent of Americans—more than any other country in the survey—believed that freer trade costs more jobs than it creates.

Trade is not the only foreign economic policy concern of Americans. Foreign investment flows also create controversies in each direction. Outward flows, which totaled $312 billion in 2008, are often viewed as outsourcing jobs, as companies choose to invest in countries other than the United States. On the other hand, inward flows of foreign investment, which totaled $316 billion in 2008, also are treated with suspicion. Thirty-two percent of Americans believe that inward foreign investment results in job losses, perhaps as a result of corporate restructuring when foreign firms acquire U.S. companies. Sixty-one percent of Americans

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blame outsourcing as the leading source of job loss in the United States. The same percentage believe that freer trade puts the U.S. economy at a disadvantage because of higher labor and environmental standards, while 69 percent want labor and environmental standards included in trade agreements with developing countries.

Clearly, the general public is not clamoring for more trade agreements and other foreign economic policies that promote globalization, and there are few votes that politicians can count when voting on such matters. Further, presidents and their trade representatives know that it will be difficult to push trade agreements through a wary Congress. The 2005 CAFTA bill received only fifty-four votes of support in the Senate and passed by only one vote in the House of Representatives. That same year, China's CNOOC oil company withdrew its bid for U.S.-based Unocal after Congress called for a review that would have delayed the takeover for months. Trade agreements with Colombia and South Korea have been signed for years but have not gone into effect because it has been clear that there are not enough votes in Congress to pass them.

Globalization has changed not only the discourse on foreign economic policies, but also the actors involved. Foreign economic policies are designed in response to pressures from far more interest groups than was the case half a century ago, when large companies were the primary actors. Today, small companies, labor groups, nongovernmental organizations (NGOs), and a range of interest groups are important components of the debate. Businesses are not homogenous, so it is not accurate to describe them as pro-free trade or favoring low tariffs (Vogel 1996). While the steel industry may lobby for high tariffs, the automobile industry may prefer low tariffs on steel imports, preferring to purchase cheaper foreign steel rather than more expensive domestic steel. Large multinational companies tend to be more vocal advocates of an active trade policy, since their global networks of operations allow them to take full advantage of low tariffs among participating countries, and thus can make investment decisions that minimize the impact of tariffs and trade barriers. Smaller and less mobile companies may prefer higher tariffs, especially if imports are competitive.

A relatively new phenomenon in shaping trade and foreign economic policies is the influence of NGOs (Yaziji and Doh 2009). These are non-profit, issue-based organizations that focus their attention on labor, the environment, human rights, development, health, and numerous other concerns. Among the thousands of NGOs involved in international business issues are well-known groups like Amnesty International, Doctors Without Borders, Greenpeace, Ofxam, and the Workers Rights Consortium. The influence of NGOs was apparent in the 1980s, when anti-apartheid groups lobbied the United States and other governments to impose trade and investment sanctions against South Africa. Since then, NGOs have figured prominently in framing the trade and general foreign economic policy debates in non-economic terms by, for example, describing the impact of trade agreements on indigenous people, access to life-saving medicines, wildlife and rainforests, and workers in sweatshops. These NGOs serve many functions, including collecting data on issues important to them and disseminating this information to policy makers and the media, as well as working with governments and businesses to devise, implement, and monitor programs.

A third group that has complicated the trade picture as a result of globalization is local government. While state and municipal governments usually are viewed as the "other half" of the U.S. federal political system, in recent decades they have taken on important international roles (Fry 1998). In 2008, $316 billion of investment poured into the United States, raising the cumulative total to $2.3 trillion. Each of the fifty state governments played an active role trying to attract foreign companies to invest in within their jurisdiction. Governors and other local officials routinely meet with potential foreign investors, offering a variety of tax and other incentives. They often travel abroad with key domestic companies, in their efforts to win bids from foreign governments. Many states have overseas offices to help companies do

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business abroad, and to provide information for foreign companies considering doing business in the United States. For example, in 2009 the Virginia Economic Development Partnership conducted sixteen group market visits around the world to promote Virginia goods and services. Pennsylvania has twenty-two offices abroad to support trade and investment. Even more localized or regional economies may be developing in certain parts of the United States (Ohmae 1995). Silicon Valley, the greater New York City area, Orlando and its environs, Washington suburbs, and similar locations have developed specializations in industries such as computer software, financial services, tourism, and high-technology that often cross state borders. To the extent that globalization shapes the trade and economic interests of regions and local governments in ways that are different from broader national interests, foreign policy making becomes even more complex.

Conclusion

Trade is a vital pillar of U.S. foreign policy. Since 1945, the international exchange of goods and services has leveraged U.S. political and military influence at the global level by forging overlapping linkages across multiple issues areas with our allies. It is an important feature that distinguished West from East during the Cold War. American advocacy of trade and willingness to incur trade deficits helped to spur rapid economic growth in East Asia and other regions. However, trade has become more complicated in recent years with the increasing economic prominence of countries that many Americans view as competitors. Elements of globalization, such as intricate supply chains that criss-cross dozens of country borders and the impact of NGOs, make it easier to identify the winners and losers of trade, financial, and general economic interdependence. The challenge for U.S. foreign policy makers going forward will be to identify ways that make the expansion of trade work for more citizens, especially those who view closer global economic links as a threat to their livelihoods and U.S. global power, and to do so in concert with other foreign policy objectives.

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