

November 1996

FOREIGN AFFAIRS

Perspectives on Foreign Affairs Programs and Structures





United States
General Accounting Office
Washington, D.C. 20548

**National Security and
International Affairs Division**

B-270292

November 8, 1996

The Honorable Jesse Helms
Chairman
The Honorable Claiborne Pell
Ranking Minority Member
Committee on Foreign Relations
United States Senate

The Honorable Benjamin A. Gilman
Chairman
The Honorable Lee H. Hamilton
Ranking Minority Member
Committee on International Relations
House of Representatives

This report summarizes the views presented at our 1996 conference on foreign affairs issues. The conference was designed to ensure that our work is directed to the full range and complexity of U.S. foreign affairs activities to better assist the Congress in adjusting U.S. foreign affairs functions and structures to post-Cold War realities. We conducted this conference under our basic legislative authority, and we are addressing this report to you because of the committee's interest in these matters.

Topics covered in the conference included

- the changed environment for foreign policy,
- the influence and impact of U.S. programs,
- the role of multilateral institutions,
- the world trade interests of the United States, and
- the structure of the U.S. foreign affairs apparatus.

Summaries of conference discussions are provided in appendixes I through IV. Conference participants included present and former government officials and private sector public policy experts representing a broad range of interests. (See app. VI.)

A central theme that emerged from the 2 days of deliberation and debate was that the needed rethinking of U.S. foreign policy objectives, requirements, and structures has not taken place at the highest levels of the foreign policy agencies. Conference participants expressed a variety of views on the role and requirements for U.S. leadership in this transitional

post-Cold War period, and they highlighted the complexity of assessing the effectiveness of U.S. policies and programs. They agreed that U.S. international economic activities need to be more clearly recognized as a new reality of international engagement that merits higher priority in the definition of U.S. national interest. In addition, participants also noted that in this new era of constrained federal budgets, increased effort needs to be directed at improving management efficiency and program effectiveness. The continued absence of a broader consensus on foreign policy objectives, however, raises the risk that the U.S. government may not have appropriate resource allocations, reflecting articulated priorities, or the structure to deal with many post-Cold War issues.

The various themes and issues raised by our conference participants suggest that executive branch and congressional attention should focus on the following topics.

**Clarifying and Balancing
U.S. Interests**

A reassessment of U.S. interests is a fundamental prerequisite to undertaking any major restructuring of the foreign affairs agencies. Policymakers need to define U.S. interests more clearly and to specify how they are to be achieved. With the end of the bipolar era, issues such as humanitarian crises, terrorist threats, environmental degradation, and trade and economic interests have assumed greater weight in foreign policy decisions.

**Determining What Policy
Instruments Work**

Objective assessments of the effectiveness of U.S. foreign policy programs in serving U.S. interests continue to be needed. These programs include development assistance, humanitarian assistance, public diplomacy, technology transfer, and export assistance.

**Assessing U.S.
Participation in
Multilateral Organizations**

Policymakers need to be kept informed on the activities, operations, budgets, and management reform efforts of these numerous international organizations in order to assess how well U.S. interests are being carried out.

**Scrutinizing the Pace of
Management Reforms**

The foreign affairs agencies have been slow to rethink and modernize their management systems, and close scrutiny of their efforts to reduce the budgetary costs of their operations is warranted.

Measuring Possible Productivity Gains From Technological Advances

New technologies can reshape and perhaps radically transform the traditional roles of the Department of State and its overseas posts. For example, with so much information available almost instantaneously from worldwide sources, the traditional reporting functions of foreign service officers need to be rethought.

Coordinating and Integrating U.S. Overseas Policies and Programs

With so many U.S. agencies now conducting programs and posting staff overseas, the U.S. ambassador may no longer be able to ensure that these various U.S. activities are coordinated and focused on the highest priorities in U.S. bilateral relationships. Policymakers need to understand how various U.S. agencies are in practice operating overseas and whether coordination mechanisms need to be strengthened.

Our Recent and Ongoing Work

We have recently completed or have under way work related to some of the issues raised at the conference. We recently issued reports on options for the State Department¹ and for the U.S. Information Agency (USIA)² to adjust their operations to reflect new political and budget realities. We pointed out that the State Department has done relatively little to reform and that it needs to fundamentally rethink the way it does business. We outlined several options that State could pursue to address possible budget constraints, including decreasing support costs, reducing overseas presence, and limiting the Department's involvement in some government functions. With respect to USIA, we found that the agency had taken significant reform actions, but we pointed out that some of its programs no longer appear to have the importance they had when they were designed decades ago.

We also recently reported on the extent to which the World Bank serves U.S. interests and the status of its reform efforts.³

We are currently developing reports on U.S. participation in different international organizations, focusing on the extent to which U.S. interests are served, and the extent of progress in implementing management reforms. These reports will be available for the new Congress.

¹See State Department: Options for Addressing Possible Budget Reductions (GAO/NSIAD-96-124, Aug. 29, 1996).

²See U.S. Information Agency: Options for Possible Budget Reductions (GAO/NSIAD-96-124, Sept. 23, 1996).

³See World Bank: U.S. Interests Supported but Progress on Reforms Needed (GAO/NSIAD-96-212, Sept. 30, 1996).

We are sending copies of this report to the heads of key agencies, including the Secretary of State, the Administrator of the U.S. Agency for International Development, and the Director of the U.S. Information Agency, and to other congressional committees. We will make copies available to others on request.

This report reflects the views of the participants, which are not necessarily those of our office. This report was prepared under the direction of Benjamin F. Nelson, Director, International Relations and Trade Issues, who may be reached on (202) 512-4128.

A handwritten signature in black ink, reading "Henry L. Hinton, Jr." with a stylized flourish at the end.

Henry L. Hinton, Jr.
Assistant Comptroller General

Contents

Letter		1
Appendix I		8
A New Foreign Policy Environment	Changed Context for U.S. Foreign Policy	8
	Difficulties in Clarifying Specific U.S. Objectives	9
Appendix II		10
Impact and Influence of U.S. International Programs	Modernizing the Conduct of Diplomacy	10
	Foreign Aid's Value in Serving U.S. Interests	11
	Varying Attention to Management Reforms	12
Appendix III		14
Serving U.S. Interests Through Multilateral Institutions	Weaknesses More Apparent With End of Cold War	14
	Serving U.S. Interests	15
	Difficulties in Achieving Management Reforms	16
Appendix IV		19
Serving U.S. Interests in World Trade	Participating in a Growing Global Economy	19
	Heightened Concern About Impact on Workers and the Environment	20
	The U.S. Government's Role in Export Promotion and Finance	21
	Addressing the Trade Deficit With Asia	22
Appendix V		24
Rethinking the U.S. Foreign Affairs Structure	Difficulties in Focusing U.S. Foreign Policy Objectives	24
	Consolidating Foreign Affairs Agencies	24
	Increased Need for Policy Coordination and Integration Overseas	25
Appendix VI		27
List of Conference Participants	Moderators	29

Abbreviations

APEC	Asia-Pacific Economic Cooperation forum
DOD	Department of Defense
EXIM	Export-Import Bank of the United States
FSO	foreign service officers
FSU	former Soviet Union
GATT	General Agreement and Tariffs and Trade
GDP	gross domestic product
IAEA	International Atomic Energy Agency
IMF	International Monetary Fund
NAFTA	North American Free Trade Agency
OECD	Organization for Economic Community Development
USIA	U.S. Information Agency
USAID	U.S. Agency for International Development
USTR	U.S. Trade Representative
WTO	World Trade Organization

A New Foreign Policy Environment

To establish a framework for the 2 days of discussions, the conference began with a discussion of the current context for U.S. foreign policy and the difficulties of defining specific objectives and strategy in the post-Cold War world.

Changed Context for U.S. Foreign Policy

Conference participants recognized that the dissolution of the Soviet Union has posed a new set of challenges for the United States and the international community. Not only are numerous new republics now struggling to reform their political and economic systems, but also the end of the restraints imposed by the bipolar system has enabled long-simmering disputes elsewhere in the world to erupt into armed conflicts or humanitarian crises. In addition, the dimension and nature of the threat from weapons of mass destruction have changed dramatically, with concerns now focusing on the capabilities and actions of “rogue” states. Moreover, issues such as the expansion of organized crime internationally, mass refugee migrations, environmental degradation, and the growing incidence of terrorism have come to be recognized as further threats to U.S. interests.

In addition, the absence of bipolar conflict has also meant that (1) traditional U.S. allies are freer to disagree among themselves and (2) issues in bilateral relationships that might have been suppressed as secondary to security issues may now come to the fore. It was noted that allied disagreements over how to respond to developing crises in the former Yugoslavia would have been suppressed for the sake of anti-Soviet solidarity during the Cold War. It was also noted that trade frictions with Japan and human rights disputes with China have recently assumed higher priority and visibility in bilateral relationships. When the United States resumed a relationship with China in the 1970s, for example, China’s human rights record was far worse than it is now but was overlooked so that the United States could align with China against the Soviet Union.

For U.S. policymakers and the American public, the Cold War with the Soviet Union had been an all-encompassing one, in the sense that it was global in scope, it was ideological as well as political and military, and it involved a commitment on the part of the American people to the primacy of security issues. The end of the Cold War brought public expectations for some sort of “peace dividend” arising from the decreased demands of foreign policy. The stable consensus that had previously existed on the primacy of security issues has disappeared, and other, domestic issues have captured public attention. Although the American people are affected

by humanitarian crises, they may not now be willing to support the type of long-term, relatively expensive intervention efforts that are probably required to address the causes of conflict in various areas of the world. It was noted that some interventions, such as in Haiti and in Bosnia, have had time limits imposed that may make it unlikely that the underlying problems will ever be solved.

Difficulties in Clarifying Specific U.S. Objectives

With the world in a period of transition, the full implications of the end of the Cold War are still unclear. Participants recognized that policy planning in these circumstances is difficult and that policy-making has occurred largely on an ad hoc basis, in reaction to humanitarian crises and unexpected ethnic conflicts.

While traditional U.S. foreign policy goals of peace, prosperity, and democracy are still considered valid, further definition of how they are to be achieved is difficult. Questions remain about what policy instruments work, how much to pay for them, and what kind of effort the country is willing to make in the world.

Several participants noted that arms control issues, particularly relating to the proliferation of weapons of mass destruction, have come to be recognized as highest priority issues. But a more specific definition of U.S. interests in some regions of the world has yet to be agreed upon.

Impact and Influence of U.S. International Programs

Two conference panels addressed broad issues relating to the management of U.S. diplomacy in the post-Cold War era and the continuing relevance, effectiveness, and impact of foreign aid programs. They covered the need for foreign aid to serve U.S. interests, the integration of modern technology into traditional diplomatic efforts, and the possibilities for streamlining agency management.

Modernizing the Conduct of Diplomacy

Participants generally recognized the need for government to be open to new methods of conducting foreign affairs and organizing agency activities. Yet they also were aware that the uncertainties of this post-Cold War transition period have made planning and priority-setting difficult. At high levels within the U.S. government, diplomacy has often been reactive and ad hoc. The State Department's top management has not taken the time to focus on whether and what systemic changes may be needed in the day-to-day conduct of diplomacy, according to the participants.

Participants suggested that advances in information and telecommunications technologies may have significant implications, for example, regarding the reporting functions of State's foreign service officers (FSO). The public availability of so much more information now calls into question the need for extensive embassy staff reporting back to Washington. The present cable writing and review process may be too cumbersome, given the widespread use of electronic mail and the possibilities of the Defense Messaging System for transmitting classified communications. And the need for face-to-face diplomatic meetings might be reduced by using other communication methods, such as videoconferencing.

The question arose as to whether U.S. embassy operations in some areas of the world could be centralized in regional offices serving various countries. U.S. diplomatic services are already provided on a regional basis for some Caribbean island republics, and assessments would need to be made of the requirements for diplomatic services in other areas being considered for regional representation.

Participants also recognized the changing structure of U.S. representation overseas, in the sense that the growth in the U.S. diplomatic presence has been in personnel assigned from other agencies, such as Justice, Transportation, and the Treasury. In countries where this has happened, the U.S. Ambassador and State Department personnel have had to play a coordinating role to maintain policy consistency and a supportive role in

providing administrative services to this growing, non-State presence. Such embassies have come to be referred to as “platforms” for U.S. government representation. While several participants were willing to reassess the types of skills and training FSOS would need in the future, they also noted the advantages of the broad knowledge and experience of FSOS and the need to be able to integrate the wide range of issues and personnel from various agencies. The Ambassador is expected to know about agency activities being conducted within the country, but this has not always been the case. As one participant noted, it has not been within the Secretary of State’s power to direct or control the activities of other Cabinet agencies, and it has been an illusion that an ambassador in the field had a coordinating power that the Secretary of State has not had. The autonomy of other agencies has increased in the past few years in part as a result of these agencies’ communications capabilities; no longer do overseas messages have to go through State or intelligence agencies’ communications channels and, thus, no longer does the Ambassador have exclusive control of information.

Foreign Aid’s Value in Serving U.S. Interests

Participants acknowledged that foreign aid has primarily served U.S. political purposes over the last several decades and that often there has been little demonstration that aid programs have effectively served economic development goals.

Participants disagreed on the extent to which foreign aid has been effective in contributing to economic development. One participant cited South Africa, South Korea, Taiwan, and Thailand as countries where foreign aid played a significant role in spurring development, whereas another noted that development occurred only after these countries enacted economic reforms, having realized that aid would end. One participant cited Egypt as a case where large amounts of aid have had negligible effect. Another participant, however, pointed out that there has been significant fertility reduction in a short period of time, even in rural Egypt; that agricultural production is increasing significantly; and that Egypt’s new economic team is initiating a process of privatization.

With respect to the future direction of U.S. aid programs, it was proposed that the principal purposes of foreign aid should be to consolidate ongoing transitions to democracy in Eastern Europe and the former Soviet Union (FSU), to strengthen regional peace in the Middle East, and to address cross-border issues—such as drugs, health threats, illegal immigration, and environmental degradation—through cooperative international

efforts. With respect to the Middle East, it was noted that there is a growing disjuncture between the existing aid package focused overwhelmingly on Israel and Egypt and the needs of an expanded peace process and that consolidating the Middle East peace will involve a longer-term, bilateral financial commitment to a broadened range of recipient countries.

It was also noted that for the more dynamic countries—in particular, Indonesia, Malaysia, Chile, Argentina, and Brazil—private sector trade and capital flows are occurring to support development. It was generally agreed that U.S. aid should be directed to the poorer countries with little access to private capital markets and that aid programs should be streamlined to focus on a narrow range of activities having high development impact.

One participant cited a recent study indicating a strong correlation between the level of economic freedom in a country and the level of economic growth, and other participants generally agreed that the United States should emphasize the transition to free, open, and growing economies as a priority goal of the U.S. development assistance program. It was noted that a country such as Mozambique, which is currently highly dependent on donor aid, would likely benefit from private sector foreign investments if it instituted economic reforms to open up its economy.

Overall, participants agreed that U.S. budget constraints will mean U.S. bilateral aid programs will have to be more focused and more results oriented.

Varying Attention to Management Reforms

Participants agreed that reassessments of U.S. foreign policy programs should include efforts to streamline agency management. They cited the U.S. Information Agency (USIA) as the agency having done the most to rethink and reform its management processes, the U.S. Agency for International Development (USAID) as having taken some initiatives, and the State Department as having stalled earlier management reform initiatives.

One participant highlighted the USIA's continuing mission in the post-Cold War world, citing the numerous initiatives different U.S. agencies have taken and the need to explain these to the foreign public at the same time as U.S. diplomats are pressing these with foreign governments. This participant noted that less than 37 percent of the USIA's work in the field

now is directly linked to the State Department. She said that explaining U.S. economic and trade policy positions has taken on a higher percentage of the USIA's work, particularly for the U.S. Trade Representative (USTR) on trade issues and for the Treasury on the introduction overseas of the new U.S. currency. In addition, it was noted that USIA had initiated and achieved reforms in such areas as streamlining personnel and cutting publications and exhibits.

Participants noted that the State Department began a Strategic Management Initiative over a year ago, but that progress stalled—partly as a result of disagreements with the Congress over the extent of streamlining needed and partly because State resisted setting funding priorities among its functions. One participant stressed the importance of considering diplomacy as America's first line of defense and of understanding the State Department's relatively small budget compared with that for the Department of Defense (DOD). He suggested that the Congress and the executive branch try to find a process that unifies rather than divides the foreign policy community. Participants generally agreed that the State Department's management of technology improvements has been inadequate, due to the lack of top-level attention, the expected high costs of such improvements, and the possible threat these innovations might represent to State's traditional way of doing business. Overall, participants observed that the State Department's top management has tended to be intensely occupied by ad hoc crises and has not provided the guidance for rethinking State's mission, functions, and organizational needs.

Serving U.S. Interests Through Multilateral Institutions

The objective of this panel was to assess how U.S. interests are served through U.S. participation in multilateral institutions such as the United Nations and the international development banks. Among the topics discussed were weaknesses in the United Nations and the promotion of U.S. interests through programs of the World Bank, the International Monetary Fund (IMF), and the regional development banks.

Weaknesses More Apparent With End of Cold War

Participants in this panel agreed that the post-Cold War era has brought greater interest in examining the relevance, achievements, and operations of international organizations.

With respect to the United Nations, it was noted that wasteful habits had developed during the 40 years of the Cold War and that curing these is inherently difficult for an organization of 185 members representing different cultures and forms of government.

Participants discussed the need for the United Nations to clarify and focus its mission on (1) maintaining peace and security; (2) mobilizing and coordinating humanitarian relief; (3) establishing norms both in technical fields and in broader areas such as human rights, and health, environment, and labor standards; and (4) supporting international development and growth by providing results-oriented advice and encouraging technical cooperation. U.N. efforts in handling transnational health and refugee problems and in monitoring weapons proliferation were cited as especially noteworthy.

Due to U.N. management difficulties, it was noted that the United States needs to reduce its expectations for the United Nations, recognizing it principally as a forum for debate and for airing international grievances. According to this view, efforts should continue to reduce the U.N. budget and bureaucracy and to assess specifically how the United Nations serves U.S. interests.

With respect to the international development banks, particularly the World Bank, participants generally agreed that not enough attention has been given to the implementation stage of major projects or to the development of the private sectors within recipient countries.

One participant questioned whether there had been any linkage between foreign aid and development. He noted that, for these institutions to serve U.S. interests, especially trade interests, they need to contribute to

countries' development; yet little direct evidence has been presented that shows a causal link, not just a correlation, between aid programs and development. He noted that the World Bank for most of its history had financed programs that supported money-losing, state-owned enterprises and that did not encourage free market economic reforms. He noted that in the mid-1980s, the World Bank became heavily involved in structural adjustment lending to developing country governments, but that the pressure to lend money, in part created by the incentive structure within the World Bank, outweighed strict insistence on the implementation of free market economic reforms. This participant stated that the role of the multilateral banks should principally be to provide technical assistance and economic advice rather than to lend money.

Another participant pointed out the banks' role in serving as a critical catalyst for economic development. He noted that, in countries where the political will exists to achieve economic reform, bank resources can provide the inducement to stay the course during difficult times. With the disintegration of the Soviet economy, developing countries have become more receptive to free market economic reforms. In his view, withdrawing from this possible catalytic role by reducing bank funding would be to miss an historic opportunity.

Serving U.S. Interests

Participants generally agreed that U.S. involvement in multilateral institutions should be assessed based on how these institutions serve U.S. interests. Not all participants could agree, however, on how extensive U.S. interests are in specific geographic regions.

The U.N. nonproliferation and humanitarian activities were cited by most participants as highly valuable in serving U.S. global interests. The U.N. Special Commission on Iraq and the International Atomic Energy Agency (IAEA) have clearly served U.S. interests in discouraging the spread of weapons of mass destruction. The U.N. role in leading humanitarian relief operations has also served U.S. interests in addressing the disruptions caused by natural disasters and political upheavals. And specialized agencies have played important roles in controlling the spread of diseases and setting international technical standards (for example, in fields such as aviation, telecommunications, and shipping).

U.N. peacekeeping operations were cited as generally serving U.S. interests. During the Persian Gulf War in particular, the United Nations provided the legitimacy needed for gathering international political,

financial, and military support. In other instances, it was noted, the United Nations can be most valuable when opposing parties sincerely want peace, as distinguished from situations when U.N. forces would be imposing peace on unwilling parties.

It was noted that the United Nations has helped maintain sanctions against countries supporting terrorism such as Iraq and Libya, has established war crimes tribunals such as the ones set up to prosecute war crimes in Rwanda and the former Yugoslavia, and has served as a forum for denouncing Cuba's shoot-down of civilian aircraft. In addition, the United Nations has helped nations like South Africa, Namibia, El Salvador, Cambodia, Mozambique, and Haiti in their transitions from conflict to democracy.

With respect to the multilateral development banks—including the World Bank, the IMF, and the regional development banks—it was noted that U.S. interests are served through these banks if U.S. trade is promoted as a result of increased development. But a question arose, however, as to whether development progress could be linked to foreign aid programs.

It was noted that U.S. interests are served through the multilateral development banks by the banks' recent emphasis on the importance of the private sector as the engine of growth and expansion in an economy. It was noted that a fundamental change in outlook had taken place within some of these banks, which are now serving to support countries' efforts to cut tariffs, to privatize, and to develop market infrastructure such as banking and securities regulatory structures. In this way, U.S. participation in multilateral development banks may enable the United States to help shape future economic relationships in Asia and Latin America, for example. The banks' efforts to build an economy in the Gaza Strip and the West Bank and to help with the reconstruction in Bosnia were also cited as ways U.S. interests are also served.

Difficulties in Achieving Management Reforms

The discussions reflected the frustrations U.S. officials have had in pursuing management reforms within the multilateral institutions over the past several years. Part of the difficulty has been the inherent problems of running such a varied organization as the United Nations.

However, one participant cited some reforms that have already been initiated: the establishment of a U.N. Under Secretary General for Internal Oversight Services to crack down on fraud and waste, the appointment of

an Under Secretary General for Administration and Management who is an American with corporate accounting expertise, the creation of a new efficiency board and high-level reform group, and the adoption of a no-growth budget expected to result in a 10-percent reduction of the Secretariat's staffing level. The United States has also proposed a series of steps regarding reform of U.N. economic and social institutions, additional management improvements, continued reform of the peacekeeping apparatus, and revision of the U.N. Security Council.

This participant noted the difficulties of pressing these changes at the same time as the United States has become seriously delinquent in paying its accumulated debts. He noted that U.S. debts, rather than reform proposals, tend to become the agenda of discussion and that some members are now questioning whether the United States would pay its debts even if desired reforms were undertaken. He stated that the executive branch will be asking the Congress to approve a 5-year plan to pay arrears to the United Nations and that actual payment of these funds would occur as the United Nations implements reforms, keeps its budget down, and continues to cut unnecessary staff. In addition, the United States will be asking U.N. members to reduce the U.S. assessment from 25 percent to 20 percent for the regular budget.

Another participant, however, questioned whether any of these attempts at reform would have taken place if the United States had not withheld payments.

A question arose concerning whether the United States needs to be a member of so many international organizations. Participants agreed that the U.S. decision this past year to drop out of the U.N. Industrial Development Organization was appropriate, since the agency had failed to find a clear mission. But one participant noted that the United States cannot opt out of individual programs within larger organizations. Within the Food and Agriculture Organization or the World Health Organization, for example, there may be wasteful programs, but overall the United States finds these organizations to be essential.

With respect to management of the multilateral development banks, one participant noted the need for closer oversight of the implementation stages of development projects and for following through on the conditions—usually related to the promotion of economic reforms—that the IMF attaches to its loans. Another participant noted that the United States is over \$1 billion behind in payments to the concessional windows

of these banks and that the poorest countries may end up having to borrow on hard terms, thus possibly becoming even more indebted later on.

Finally, it was noted that the United States has received very little support from other industrial country democracies in promoting reforms in these multilateral institutions or in achieving results from their activities. It was suggested that the United States focus more on gaining such international support for needed reforms in these institutions.

Serving U.S. Interests in World Trade

We held two panels addressing issues regarding U.S. interests in world trade and U.S. government export promotion and finance programs. The panels considered questions relating to increased U.S. participation in the global economy, concerns over the labor and environmental implications of such participation, the need for U.S. government export promotion and finance programs, and the U.S. trade deficit with Asian nations.

Participating in a Growing Global Economy

Participants in these panels agreed that the United States has become increasingly linked to the world economy and needs to continue to pursue the economic opportunities that global economic growth offers.

Several participants noted the extent to which U.S. exports contribute to the U.S. economy. In the 1990s, overall export growth has accounted for one-third of the increase in U.S. gross domestic product (GDP). Total exports over the last 5 years have accounted for about 10 to 12 percent of total GDP. In the agriculture sector, exports have become relatively more important, with agricultural exports accounting for about 25 percent of agricultural GDP and expected to grow to about 30 percent by the year 2000. The United States remains the world's leading exporter, benefiting from rapidly rising global demand for U.S. farm products, information and telecommunications technology, and aircraft.

Over the past several years, however, the U.S.' preeminent role in the world economy has been challenged by the emergence of strong new competition, particularly from countries in Europe and Asia. The strongest markets for U.S. products are also changing, with certain rapidly growing developing countries now serving as the focus of U.S. trade competitors' attention.

In addition, U.S. foreign policy objectives are now seen to be served by U.S. economic "engagement" with other countries. Developing U.S. trade and investment linkages with Eastern Europe and the former Soviet republics can be a way to support the economic and political reforms taking place in these countries. And debate continues on how to construct economic relationships with China in a way that would demonstrate the benefits of observing internationally agreed-upon rules and practices.

Heightened Concern About Impact on Workers and the Environment

Participants generally recognized that the U.S. public has become anxious about economic dislocations and related job insecurities. However, they disagreed on the extent to which these problems could be attributed to recent international trade agreements or to increased levels of U.S. trade and investment flows overseas.

One participant said that worker and environmental concerns have not adequately been addressed in recent international agreements. According to this participant, U.S. international economic policies have been primarily business centered—emphasizing the protection of business profits and property and tending to encourage businesses to move operations around the globe in search of lowest cost labor or most lax enforcement of environmental or labor regulations. Multilateral agreements have included very few rules regarding the treatment of workers and the environment. For example, the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) agreement did not initially address labor or environment issues. While there are now labor and environmental side agreements to NAFTA and a WTO working group on labor rights issues, the side agreements are not binding to the same degree as NAFTA and in effect have proved unenforceable. For example, in a case brought under the labor side agreement, it was found that the Mexican government had failed to enforce its own laws regarding workers' rights to organize a union. However, no penalties or remedies were assessed; only a ministerial consultation took place.

This participant also noted that economists have found that the increased volume of trade has contributed to greater wage inequality in the United States since 1980. Jobs lost due to increased imports have tended to involve lower wage and lower skilled workers, while jobs gained from expanded exports have brought benefits for higher skilled workers and the owners of capital. Although the gains to winners are presumed to be greater than the losses to losers, this participant noted that the “losers” are the bottom 70 percent of the U.S. population, while the “winners” are the fairly small elite at the top of the business community. Lower skilled workers losing jobs because of imports or because their factory is moved overseas often cannot find higher skilled jobs and end up having to take, on average, a 10-percent pay cut.

Other participants noted that economic dislocations taking place now in the United States are due largely to rapid technological changes occurring in the U.S. workplace. They also said that trade and investment flows

affecting U.S. jobs and foreign labor were already occurring well before NAFTA was signed and that improving the U.S.-Mexican economic relationship will have longer-range economic benefits for the United States. Further, the more open world trading system promoted through the General Agreement on Tariffs and Trade (GATT) and now the WTO has in fact tended to improve labor standards in such countries as Taiwan, Singapore, and Hong Kong. A consensus does not yet exist on how to link trade and labor issues; one participant noted that some developing countries would not welcome certain international labor standards such as a global minimum wage.

The U.S. Government's Role in Export Promotion and Finance

Participants shared the view that the international marketplace is not perfectly open; that competitor governments assist their nation's firms in winning sales; and that the U.S. government, therefore, has a legitimate role in assisting U.S. exporters to counter and discourage unfair foreign trade practices. The U.S. policy objective, however, should remain that of reducing and eventually terminating such government support.

One participant noted that U.S. government export support is particularly important now that so many new markets are being formed—especially in rapidly developing countries—and new market shares among competitors are being created. In these markets, competitor country governments are helping their companies succeed in the crucial early days of establishing initial market shares.

This participant noted that U.S. government policy is to finance only those projects that would not take place in the absence of export financing. Determining which projects are in this sense “additional” is not easy, however, and the Export-Import (EXIM) Bank of the United States makes such judgments on a case-by-case basis.

Overall progress has been made toward privatization around the world, it was noted, and this should favor moves toward more open markets and eventually a reduction in EXIM's subsidy levels for U.S. exporters.

U.S. export promotion programs are viewed as necessary, because imperfections in the way the marketplace provides information and access tend to skew opportunities toward larger, multinational firms. Small and medium-sized U.S. businesses are left at a comparative disadvantage, especially in rapidly changing new markets, and these are the types of firms to which U.S. export assistance needs to be directed. Also, U.S.

agricultural firms still face a number of allowable foreign government subsidies and trade-distorting practices, and U.S. government export support is directed at countering these activities.

It was noted that the United States continues to lag behind its major competitors in terms of money and staff dedicated to export promotion. For example, the United Kingdom spent over eight times as much, relative to GDP, as the United States did on export promotion programs in 1994. And France has 10 times the U.S. export promotion staff, relative to GDP.

U.S. firms have also had to compete in export markets with foreign firms supported by high-level government advocacy efforts. The Commerce Department tracked 200 projects over an 8-year period and found that U.S. firms lost about 45 percent of those export contracts at least partly as a result of foreign government interventions favoring their national firms.

Addressing the Trade Deficit With Asia

The Asian countries have developed into major growth centers, becoming both export competitors and important markets for U.S. goods and services. The U.S. overall trade deficit with Asia was a matter of concern to some participants, although it was recognized that U.S. trade deficits stem from broader economic factors such as domestic savings, investment, and consumption levels.

One participant emphasized the importance of aggressive marketing by U.S. companies to enter Asian countries' markets and develop local contacts and alliances. This would include recognizing and countering subsidized third-party competition from Europe and elsewhere. Another participant noted the importance of redeploying the Department of Agriculture's export promotion efforts from mature markets, such as Europe, to the expanding markets, particularly in Pacific Rim countries. He also agreed with our emphasis on the continuing need to focus on long-term strategic planning in targeting export promotion activities.

With respect to China, it was noted that bringing China under the rules of the international trading system, the WTO, would give U.S. exporters better access to China's growing internal market and would discourage Chinese trade practices that violate international rules. One participant said that the terms for permitting China's entry into the WTO need to commit China to the process of free market economic reform and to prevent China from using its traditional tools of state planning, such as quotas, administrative guidance, and import substitution, to exclude U.S. exports.

One participant stated that imposing unilateral export sanctions is not helpful in improving the U.S.-Asia relationship, because other countries have indicated they will not adhere to these. In his view, trade relations should be delinked from nontrade issues. In addition, it was noted that China has the potential to become a competitor to the United States in exporting some agricultural products to Asian markets.

Enforcing existing U.S. trade laws and agreements with Asian nations is also important in ensuring that fair trading relationships are maintained with Asia. One participant noted that there is nothing in the WTO agreement that precludes the effective use of section 301 of the U.S. Trade Act of 1974.¹ In his view, aggressive implementation of section 301 has been and continues to be a means for the United States to stand up to foreign trade barriers, with foreign governments remaining free to respond in kind when section 301 sanctions are imposed.

Participants noted that other types of trade issues with Asian nations can be handled in multilateral forums such as the Organization for Economic Cooperation and Development (OECD) and the Asia-Pacific Economic Cooperation forum (APEC). Japan's "keiretsu" business cartels, for example, have posed a major barrier to U.S. exports. And while such cartels are not covered directly under existing international agreements, the OECD has served as a forum for addressing the issue of countries' varying competition practices. Also, APEC, as a regional grouping, holds promise as a means of further opening markets.

¹Section 301 of the Trade Act of 1974, as amended (19 U.S.C. 2411) serves as the U.S. government's principal mechanism for addressing unfair foreign trade practices.

Rethinking the U.S. Foreign Affairs Structure

Our final panel sought to examine whether and how U.S. foreign policy agencies may need to be restructured to adjust to the post-Cold War environment. Suggested revisions included possibilities for consolidating some of these agencies and for emphasizing coordination of their activities.

Difficulties in Focusing U.S. Foreign Policy Objectives

As noted in appendix I, U.S. foreign policy agencies now have had to handle, on an ad hoc basis, a new variety of international events and crises. Policymakers have been struggling to define U.S. interests in this environment so as to guide decision-making on whether and how the United States should become “selectively engaged.” The broader vision of enlarging the community of democratic, free market countries is widely shared, but debate continues on the specifics of individual actions the United States is prepared to take in support of these broader goals.

The overall foreign policy consensus that existed within the United States during the Cold War has weakened at the same time the U.S. domestic consensus has strengthened for reducing the budget deficit. Pressures to lower the deficit have resulted in streamlining and downsizing efforts across most federal agencies. Yet in this transitional post-Cold War period, foreign policy agencies have had difficulty focusing foreign policy objectives and defining requirements in order to establish budget priorities.

Conference participants acknowledged that all these factors have led to frictions between the Congress and the executive branch regarding foreign policy budgeting. Participants agreed, however, that efforts should continue to rethink the purposes and requirements of U.S. foreign policy programs and agencies in order to separate core activities from peripheral ones.

Consolidating Foreign Affairs Agencies

Several participants noted that proposals to consolidate certain foreign affairs agencies sparked serious and valuable rethinking of agency missions. But some also felt that the pressure to consolidate for budgetary reasons obscured understanding of the functional differences among these agencies and the original rationale in creating separate institutions. One participant noted that USAID was originally kept out of the State Department because aid programs and development required a long-term perspective, whereas State Department activities tended to require much shorter-term responses. For example, USAID has been called upon to handle

humanitarian crises and natural disasters in areas that may not have related directly to State's foreign policy priorities, and some USAID projects can take 10 to 20 years to show clear results.

Some participants emphasized that the purposes of U.S. foreign policy and programs need to be assessed and better understood before agency restructuring can take place. U.S. policymakers need first examine what the United States really wants to achieve in the world and then decide on the appropriate structure.

One participant noted that efforts have been made in the past to restructure the government's trade functions to focus government programs and to respond to the increased importance of international trade in overall U.S. foreign policy. But these efforts made little progress, in part, because the Congress' committee and appropriations structure governing trade would also have to be significantly changed. Debate on this issue continues, however, because other countries, such as Japan and France, have governments more focused on supporting national commercial policies.

Increased Need for Policy Coordination and Integration Overseas

Conference participants agreed that technological advances, in addition to facilitating day-to-day diplomacy through electronic mail or videoconferencing, have also complicated diplomacy in this era of broader U.S. agency representation overseas. Because communications no longer always go through the Ambassador in the form of cables, personnel from various agencies can communicate with Washington officials outside formal State Department channels.

So many U.S. government activities now are carried out by non-State personnel overseas that it can be difficult for the U.S. Ambassador even to be aware of each agency's activities. Most participants agreed that the State Department FSOS should not seek to be closely involved in other agencies' specific programs but that they should play an important role in coordinating and integrating the diverse efforts of other agencies overseas.

It was noted that greater emphasis is being given, at both the Washington and embassy levels, to improving planning and coordination. Some embassies are attempting to model new ways of working together in order to bring a more integrated and strategic approach to U.S. activities overseas. USIA, for example, has been stressing "forward engagement" to facilitate government relationships by establishing bases of understanding

among the local publics and opinion leaders within countries before crises emerge. Greater policy integration could occur, also, if the State Department itself gained a greater appreciation of the work USIA and other agencies do.

Policy integration, it was noted, need not mean overriding the distinct voices of foreign affairs agencies. One participant pointed out the advantages of having more than one government voice with respect to certain foreign policies; for example, when the State Department may need to maintain a relationship with a country following inadvisable economic policies, USAID can be the one to refuse a foreign aid program based on the country's not being a good development partner.

List of Conference Participants

Gordon Adams

Associate Director, National Security and International Affairs
Office of Management and Budget

Doug Badow

Senior Fellow
CATO Institute

Kenneth Brody

Former President and Chairman
U.S. Export Import Bank

Larry E. Byrne

Assistant Administrator for Management
U.S. Agency for International Development

Lynn E. Davis

Under Secretary of State for Arms Control and International
Security Affairs
U.S. Department of State

J. Michael Farren

Vice President
Xerox Corporation

Laurie J. Fitz-Pegado

Director-General, U.S. and Foreign Commercial Service
U.S. Department of Commerce

David Gordon

Deputy Director
Overseas Development Council

Martha C. Harris

Deputy Assistant Secretary of State for Politico-Military Affairs
U.S. Department of State

Tex Harris

President
American Foreign Service Association

John Howard
U.S. Chamber of Commerce

Penn Kemble
Deputy Director
U.S. Information Agency

Thea Lee
Economic Policy Institute

Michael Mandelbaum
School of Advanced International Studies
Johns Hopkins University

Warren Maruyama
Sidley and Austin

Allan I. Mendelowitz
Executive Vice President
U.S. Export Import Bank

Richard Moose
Under Secretary for Management
U.S. Department of State

Donna M. Oglesby
Counselor
U.S. Information Agency

Anthony E. E. Quainton
Director General of the Foreign Service
U.S. Department of State

Charles Schmitz
President
Global Access Institute

August Schumacher, Jr.
Administrator, Foreign Agricultural Service
U.S. Department of Agriculture

Jeffrey R. Shafer

Assistant Secretary, International Affairs
U.S. Department of the Treasury

Thomas P. Sheehy

Jay Kingham Fellow in International Regulatory Affairs
Heritage Foundation

Sally Shelton

Assistant Administrator, Bureau for Global Programs,
Field Support, and Research
U.S. Agency for International Development

Joan E. Spero

Under Secretary of State for Economic and Agricultural Affairs
U.S. Department of State

George F. Ward

Acting Assistant Secretary, International Organization Affairs
U.S. Department of State

Moderators

Frank C. Conahan

Former Assistant Comptroller General
National Security and International Affairs Division
U.S. General Accounting Office

Benjamin F. Nelson

Director, International Relations and Trade Issues
National Security and International Affairs Division
U.S. General Accounting Office

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015**

or visit:

**Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC**

**Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.**

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested

