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"Economics is the most powerful tool of US foreign policy" Discuss.

US foreign policy primarily consists of three distinct tools in order to promote US national interests abroad: military action, foreign aid and diplomacy. However, the greatest leverage the US maintains is its sizable economic clout, making this aspect the most effective of all US policy levers.

One reason to support this claim is the huge size of the US economy. The metaphorical 'carrot' of access to the US market of $19390.60 billion[1] and 31.28 percent of the world economy means that the US can generally encourage countries to be more favourable to its own interests. This combined with the advantages of access to deep US capital markets and advanced technologies a means it has the ability to negotiate favourable treaties and international agreements and influence the decisions of countries around the world.

This tool can be benign, in the 2017 US budget, foreign aid amounted for $42.4bn (a little over 1 percent)[2], of which $25.6bn was for direct economic and development aid. Such aid is a long-term proposition, but generally a powerful tool. As was proven in the Marshall plan, lending money to countries so they are able to grow their economies allows potential regional allies to grow in strength and become more reliable. The indebtedness of such countries, generally makes them more pliable to the creditor's national interests and provides leverage. Post WW2, the Marshall plan lent $13bn to remake western Europe, and led to not only the containment of communism in the region, but also the emergence of the US as major influence in European affairs, a position it has continually maintained till the present. Such policies greatly increase goodwill towards America in the populations of debtor countries, as well as providing new markets for American companies to exploit, particularly in the context of foreign aid, which tends to have caveats that make redirect American aid towards companies, effectively subsiding American industry. The resultant effect is an improvement in soft power that can manifest itself in far easier engagements in multilateral diplomacy in forums such as the United Nations.

When the US chooses to implements its economics as a policy tool, another method is to impose trade embargoes. A recent example is Iran, which had sanctions re-imposed on it by the Trump administration. With 31.28 percent of the world economy, the US is even able to influence the policy of reluctant third parties to comply with its foreign policy, such as when the EU also banned Iranian imports of oil, cutting its exports by a quarter. With the State department announcing the aim of cutting off all exports of Iranian oil by November 2018[3], the US has the ability to cripple the Iranian economy, whether that be to apply 'aggressive use of its authorities to target Iran's malign behavior'[4] or even to encourage regime change. By harming Iranian oil exports, which had increased 41.3 percent in 2016 following sanctions relief[5], the US is able to reduce the ability of Iran to gain hard foreign currencies which fund crucial imports for its country. The effects are hugely inflationary for the Iranian economy, Inflations is predicted to rise to 12.1 percent in 2018, up from 9.89 percent in 2017[6]. This has fuelled domestic discontent, which the US hopes will prevent Iranian foreign actors such as

[1] Figures from Trading Economics: 2017
[2] All figures are taken from the Washington Post
[3] See article 'Trump tightens screws on Iranian Oil'
[4] See US department of the Treasury
[5] Figures from World Bank Report 'Iran Economic Monitor Fall 2017'
[6] See Statistica.com 'Iran Inflation Rate'

the ‘Quds Force’, which is held responsible to region destabilising actions in the Middle East, acting against US national interests and allies in the region. Essentially, the great economic power of the US can be used to indirectly coerce countries into changing their foreign policies.

Another foreign policy lever the US uses to affect the balance of power in regions to its own advantage is military force. Needless to say, it is lethally effective and can achieve short-term policy objectives. However, even in the military sector the US’s economic strength is on display. The US was the largest arms dealer in the world in 2014,[7] controlling more than 50 percent of the global weaponry market and it spent $16.8bn in 2017 on security aid.[8] Similar to economic aid, the money spent on security is also essentially a subsidy for US defence companies, but they are also an element of US foreign policy. The government decides who the US sells arms to, and they are always allies of the US (See appendix 1). Economic assistance for countries allows them to invest in advanced weapons systems produced by the US, allowing them to have a strategic advantage over non-US aligned countries in the region. An example is Israel, which received $3.1bn of subsidies in 2017, it is by far the most militarily advanced country in the region. A powerful ally helps America keep destabilising forces in the region in check and also becomes more reliant on the US, as it will require constant maintenance from US companies to keep their weapons systems online. Such economic choices also allow military companies to invest more in their systems, maintaining the military superiority of the US in the medium-long term. Even in the military sector, the economic power of the US is present.

However, there are limitations to such policies. Firstly, economics, as opposed to military actions, has a significant lag, and is blunt as an instrument of foreign policy. For example, the economic sanctions on Iranian oil, have the effect of raising global oil prices, as supply is reduced through US policy. Especially in the short term, during which other exporters such as Saudi Arabia and Russia will struggle to increase production to make up for the Iranian shortfall as capital is fixed in the short run. This will result in higher than expected oil prices for US consumers and business, potentially harming US economic growth. Higher prices also harm the national interests of other countries that rely of cheap oil, such as India and so may lead to clashes.

Another key limitation is the weakened effectiveness of such policies on larger economies, that are able to withstand the impacts. Recent moves towards a trade war with China in order to influence its current economic policies, namely theft of American intellectual property, state subsidies in sensitive industries and non-tariff barriers to foreign investment, are far costlier and complicated for the US. China’s economy is $12237.70 billion in 2017. The GDP value of China represents 19.74 percent of the world economy.[9] Due to relatively small size difference, and also the fact that US/China trade accounts for an estimated $648.5 billion[10] sanctions on China over the long term are impossible without great economic damage to the US as well. The US has threatened to impose 25 percent tariff on $200 billion worth of Chinese goods[11] but this has also prompted the Chinese to threaten retaliatory tariffs.

[7] See Time.com ‘US Arms Sales Exports Weapons’
[8] See Washington Post ‘The U.S. foreign aid budget, visualized’
[9] Figures from Trading Economics
[10] Figures from 2016 ‘Office of the United States Trade Representative’
[11] See CNBC ‘China vows retaliation if Trump slaps 25% tariff on $200 billion of Chinese imports’

The overall effectiveness of such policy is questionable. Tariffs, a form of economic nationalism currently pursued by the US, rely on extra taxes on imports raising their prices so they are uncompetitive compared to domestically made goods, thus reducing the demand for imports. This would harm the economy of countries that rely on exports, compared to the US which is primarily consumer led-hence the large trade deficits it has. The increased cost of raw material inputs such as iron and steel that have also been taxed have harmed domestic companies that rely on such imports, due to the higher costs. Firms such as Harley-Davidson Motorcycles, will either cut supply in the US and so cut the very jobs the policies are designed to protect, or shift production outside the US which will have the same effect. Such a policy move also risks the US entering a trade war that it will struggle to extract itself from, much like its military ventures. A key limitation of economics as a foreign policy tool is that it harms the US as well as the opponent.

The US's 'America First' policies, which engage in unilateralism, have also undermined the effectiveness of economics as a foreign policy tool. Due to the interconnectedness of the US led rules based economic system, successful pressure relies on the co-operation of other trading powers such as the EU and China, both of which have been hit with tariffs of 25 percent tax on steel and 10 percent on aluminium, causing problems within the relationship. To add affront for key US allies, the tariffs have been justified under Section 232 of the US Trade Expansion Act of 1962 and cites national security reasons. Such usage of US trade policies to force the reduction of tariffs unilaterally harms the credibility of both the US internationally and also the World Trade Organisation which it helped to create. In the long term, the denial of multilateralism in the pursuit of short-term economic advantage over strategic rivals and allies alike will damage America's long-term interest in preserving the status quo.

To conclude, within all three of the US's foreign policy options, economics and the economic clout of the US plays a role. In aid, the US is able to nudge countries over the long-term to agree with its demands, diplomacy wise, the use of economic sanctions to punish behaviour or coerce rivals to negotiation has proven effective, and even in military action, careful manipulation of the arms trade can help achieve American foreign policy objectives without large numbers of American boots on the ground. Of course, economics has its limitations, including the difficulties in co-ordinating efforts for maximum pressure and the obvious challenge that the US is predicted to cede the position of largest economy to China by 2032.[12] However, well executed economic decisions have far fewer negative repercussions for the US and are able to be sustained in the medium-long term without harming American lives. For such reasons, it is clear that economics, when applied with finesse, is currently the most powerful of all American foreign policy tools.

[12] See Bloomberg 'China to Overtake U.S. Economy by 2032 as Asian Might Builds'

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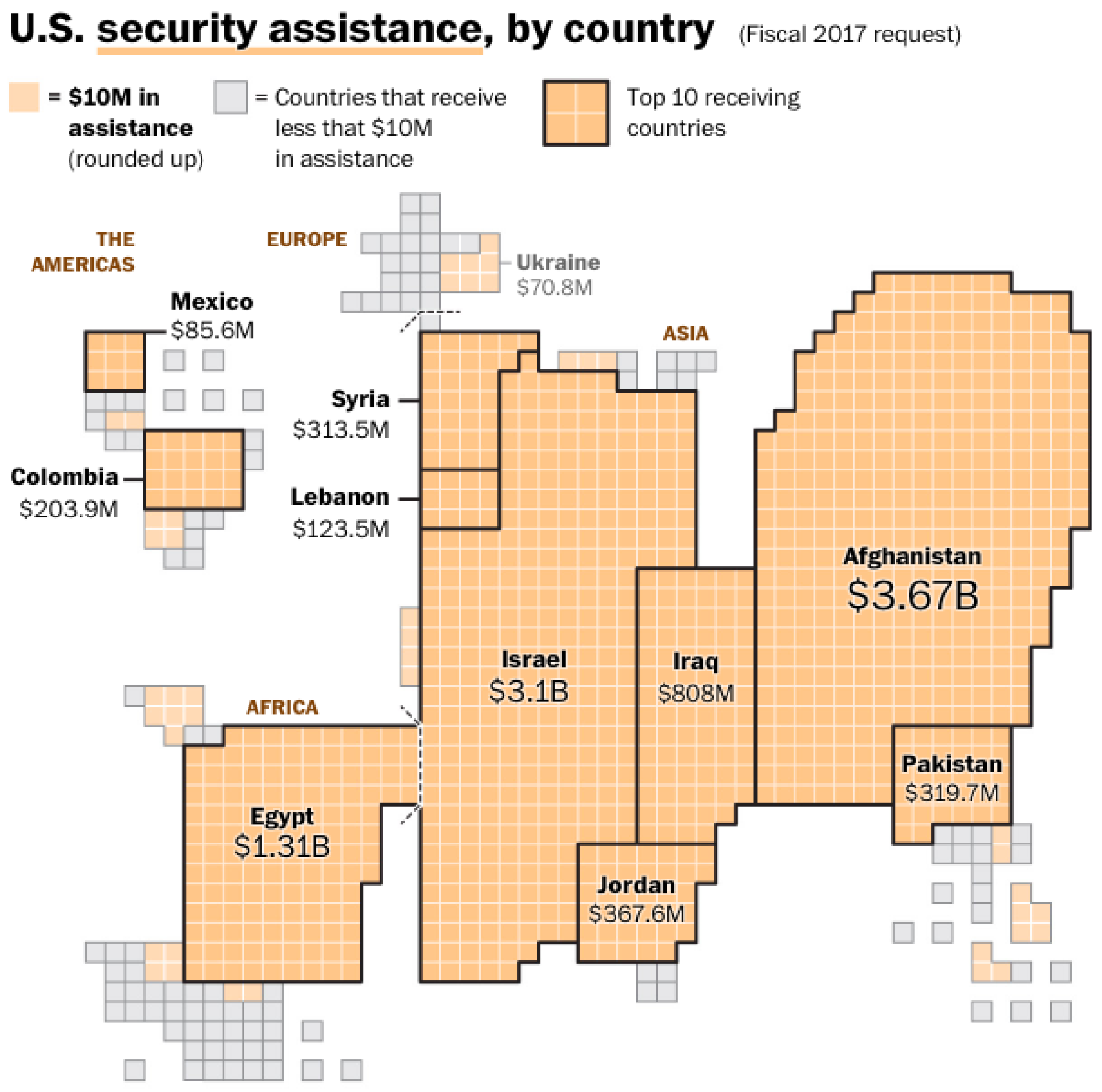
Appendix

Chart 1



From The Washington Post 'The U.S. foreign aid budget, visualized'