



Christian Schlegel

# Flag Follows Trade?

The USA and its Economic and  
Foreign Policy Interdependencies

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## Abstract

“Flag follows trade” was the saying used in the 19<sup>th</sup> century about the intertwining of politics, economics, and trade. Today, the United States of America is a world power economically, militarily, and politically. It benefits from free trade, spends more on its military than any other nation, and is thus a political heavyweight. The interaction of these components makes the United States the most powerful country in the world. However, how trade, economic, and security policy interact in US foreign policy is rarely considered in a global context. This book shows how the American superpower relies on its global economic prowess to finance its power and thus maintain its position in the world vis-à-vis rising China.

**Keywords:** US foreign policy; security policy; trade policy; economic policy; free trade; geopolitics; USA



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# List of Abbreviations

<b>AfCTA</b>	African-Continental Trade Area
<b>AIPAC</b>	American Israel Public Affairs Committee
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>BRI</b>	Belt and Road Initiative
<b>CAFTA-DR</b>	Central American Free Trade Agreement – Dominican Republic
<b>CLFTA</b>	Chile Free Trade Agreement
<b>CPTPP</b>	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
<b>DoD</b>	United States Department of Defense
<b>DoS</b>	United States Department of State
<b>EU</b>	European Union
<b>FTA</b>	Free Trade Agreement
<b>GATT</b>	General Agreement on Tariffs and Trade
<b>GSP</b>	Generalized System of Preferences
<b>IMF</b>	International Monetary Fund
<b>KORUS</b>	US-Korean Free Trade Agreement
<b>NAFTA</b>	North American Free Trade Agreement
<b>NATO</b>	North Atlantic Treaty Organization
<b>NSS</b>	National Security Strategy
<b>PTPA</b>	Peru Trade Promotion Agreement
<b>RCEP</b>	Regional Comprehensive Economic Partnership
<b>RTAP</b>	Reciprocal Trade Agreements Act
<b>SOE</b>	State-owned enterprise
<b>TPP</b>	Trans-Pacific Partnership
<b>TTIP</b>	Transatlantic Trade and Investment Partnership
<b>UAE</b>	United Arab Emirates
<b>US</b>	United States of America
<b>USMCA</b>	United States-Mexico-Canada-Agreement
<b>WTO</b>	World Trade Organization



## Foreword

This book came about through my curiosity about the subject of American free trade policy, which is often understood as a purely economic issue. But, as the book shows, free trade is only an economic issue at first glance; it is rather highly political. This applies to the present as well as the past. For which nation and for what reasons a trade agreement was and is concluded is not only based on economic criteria but also security policy considerations.

Where there are free trade agreements, this also directly impacts every citizen of the countries involved, down to the minor details of the economic agreements. Therefore, the issue concerns every individual. It is also about economic and political dependencies. However, this book is not about debunking conspiratorial myths. Instead, it is to show what particular free-market ambitions the United States is pursuing in its policies. These are not to be evaluated ethically. Rather, this book aims to help better understand patterns of American foreign policy today by describing things in as nuanced a way as possible and drawing conclusions from it.

This book was written in an eventful time and is the result of more than six years of process. I wrote this book out of genuine interest, which drives me in addition to my job as a journalist and political scientist. It is essential that in these fast-paced times, there is also the leisure to explore backgrounds that may not reach a large readership but may be appreciated all the more by a few readers. It has not always been easy for me



to spare this time, so I am pleased that I have succeeded in bringing this work to a conclusion.

I have read and evaluated countless books and articles for researching this topic. Still, not all are in the bibliography because not all were used for the primary purposes of this book and served as background literature. I have processed facts to the best of my knowledge and belief and incorporated them into my book according to scientific criteria.

I am writing a book about the connection between American security policy and US trade and economic policy. This is done from the outside perspective as a German on the US who has already spent some time in America himself. But it is certainly a different view than if this had been written from an American perspective.

During the writing, many changes have taken place both privately and professionally. I want to thank my wife, Anca, who has had my back for this project and has always encouraged me in my plans. I want to thank my two daughters, Liya and Yaira, who always bring joy and confidence into my life. And finally, I would like to thank G-d, without whose grace and support no human being can succeed in anything, let alone such a complex endeavor as writing a book.

# 1 Introduction

*“When we invest in the economic development of countries, we create new markets for our products and reduce the likelihood of instability, violence, and mass migration.” (Biden, 2021)*

For President Joe Biden trade and economic policy are part of security policy. In his security strategy, presented in March 2021, he reaffirmed the position that his predecessors in office had also taken in various forms in American history.

As we enter the 2020s, the United States (US) is the strongest, largest, and most powerful economy on Earth. The country has held this status since the 1870s (Lind, 2012, p. 460). However, there is a possibility that America may have to relinquish this position to China. This loss would have fundamental significance for the future US path in world politics. Since the end of World War II, American economic and foreign policy has been based on many premises that were strongly linked to its hegemonic position and its position as the most powerful economic nation. This was based on the Pax Americana of making allies economically strong to strengthen their power regarding their own policies.

For the US to remain the most robust economy in the world, it relies on constant adaptation and thus change in its economy and policies to reflect the constantly changing world situation. In particular, the free trade agreements (FTAs) concluded with specific frequency in the 1990s and 2000s shed light on the US's approach, motivation, and strategy in recent decades. The

US now maintains a global network of FTAs. To date, US governments have concluded FTAs with 20 countries, and more are being negotiated. They are based on a belief in free markets, which became increasingly popular in the US in the 1970s. Although trade is significant to the US, the US is reluctant by global standards to enter into FTAs. Thus, regarding the sheer volume of treaties, the EU or India move far ahead of the US (Melchior, 2018, p. 37).

“Flag follows trade” was the phrase used in the 19<sup>th</sup> century about the entanglement between politics and trade (Pollins, 1989, p. 465). This book examines this nexus in US security policy, namely how the trade and economic policies have been linked to US security interests and whether the 19<sup>th</sup>-century principle still holds in US politics. In particular, it looks at the relationship between bilateral FTAs and political considerations. It thus brings together trade, economics, and security policy. Those fields are often considered separately in the popular view, even though they are closely intertwined.

This book posits that a market-oriented view has notably shaped and continues to shape the United States’ foreign policy. Concurrent with free trade, a crisis in the American middle class developed, accompanied by creeping deindustrialization, stagnating real wages, and a growing trade deficit. Indeed, according to the context of American presidents since Ronald Reagan, American security can only be guaranteed if the economy grows sustainably. When the economy stagnates, it directly impacts American prosperity and, thus, national security. This connection exists because the US military apparatus must also be counter-funded. Conversely, the American economy benefits from growing defense spending because the American industry produces the government’s weapons (Reich, 1972, p. 303).

So which factors determine American foreign policy more, security or trade and economics? To what extent do the factors interact with each other? Based on the findings, is it possible to make more precise assessments about the direction in which the strategy of American foreign policy will take? Or is the interplay of various factors in American foreign policy simply too complex to break down into two central elements? These questions will be answered in this book.

Regarding economic history, a free trade system exists because a dominant force benefits from it. In the 19<sup>th</sup> century, this was Great Britain; after World War II, this was the US (Hastedt, 2000, p. 329). The economic history of the US is outlined in Chapter 2. In doing so, it also becomes clear what a central role capitalism plays in American history. This impact is evident in the country's foreign and security policies. It is also presented how the US became the superpower it is today through economic policy decisions in the 19<sup>th</sup> century. Chapter 2 also outlines the limitations and the scope of American foreign policy regarding trade and economics. The political institutions that shape American policy are explained.

Chapter 3 looks at the relationship between security policy on the one hand and economic and trade policy on the other. Answers to this question can be found in the essential theories of international politics, realism, liberalism, and constructivism. Subsequently, the competing concepts of Grand Strategy are broken down in this context. Furthermore, the role of economic and trade policy in US foreign policy will be conceptualized. For this purpose, the national security strategies since the term of Ronald Reagan are compared. Chapter 3 also explains how US economic policy is an essential part of US foreign policy, complemented by other security policy components.

The US concluded its first modern bilateral FTA with Israel. Therefore, the analysis of the different regions of the world

begins with Chapter 4 by examining the Middle East region. In doing so, the region's recent history concerning the US since World War I will be presented. It looks at the trade treaties that have been concluded from an economic and security point of view. It concerns the US FTAs with Israel, Jordan, Oman, and Bahrain. The American aim has been to normalize the relations between Israel and its neighbors. They followed only secondarily the goal of benefiting the American economy. By no means were those countries in the region that would have been economically most promising among the favorites for FTAs.

Chapter 5 looks at the Asia-Pacific region and focuses primarily on the rivalry between the US and China that defines it today. President Obama drafted the Trans-Pacific Partnership (TPP) trade agreement. TPP was seen as a means of US economic power containment vis-à-vis China as part of its turn towards Asia. The trade agreement with South Korea demonstrates a middle power strongly tied to China economically but dependent on the US for security. Equally relevant, however, is the economic-political relationship with Japan, which was already massively promoted by the US after World War II. The relationship with India shows how the US deals with an emerging economic power seeking its place in the international community. In addition, Chapter 5 looks at trade and security relations with Australia, Singapore, Malaysia, and Thailand. It analyzes how the US lost power and influence in the region with President Trump's withdrawal from the TPP. In the Asia-Pacific region, FTAs have also been and continue to be essential to US security ambitions.

Chapter 6 deals with the connection between security and free trade on the American continent. First, we look at the North American Free Trade Agreement (NAFTA), today's United States-Mexico-Canada Agreement (USMCA). It is examined to

what extent the US sets the tone regarding security policy. The agreement called the “Central American Free Trade Agreement – Dominican Republic” (CAFTA-DR) with the countries of Central America and the Dominican Republic is also considered in terms of security policy. It serves geopolitical objectives on the one hand, but also pragmatic security aspects related to the fight against drug-related crime, refugee movements, and corruption. The other trade initiatives with South American countries have a similar security policy orientation. The US still pursues the claim that the “Western Hemisphere”, in the sense of the Monroe Doctrine, must be its sphere of influence.

Chapter 7 examines the American relationship with Russia, directly impacting the US relationship with the EU states. Economically, Russia is less important for the EU, apart from its partial dependence on Russian raw materials. Russia is still a military superpower, especially since the Ukraine war, posing a severe threat to the EU’s eastern member states. The economic-political relations between the US and Russia since the end of World War II deserve consideration in Chapter 7.

Chapter 8 deals with the relationship between Europe and the US. It is possibly the most ambivalent political and economic relationship the US has. On the one hand, there is a joint defense alliance through the North Atlantic Treaty Organization (NATO), a shared set of values between the two continents, and a similar idea of economic policy. On the other hand, the EU and the US stopped negotiating the bilateral trade agreement “Transatlantic Trade and Investment Partnership” (TTIP). Moreover, under President Donald Trump, an economic conflict developed. Built up with economic aid from the US, with whose help a post-Cold War eastward enlargement was achieved, the EU has become a relevant political entity. Although the EU is governed in a unique decentralized way, it is economically powerful. Still, it rarely acts clearly and

unambiguously regarding security policy issues, which burdens the transatlantic relationship.

Chapter 9 turns to the African continent and the FTAs with the US. The continent has long been underestimated by the US and holds a great deal of potential. The chapter looks at the agreement with Morocco, in which security policy factors played a role. In addition, the chapter deals with the negotiated agreement with Kenya. It shows that China knows how to gain a foothold on the African continent and could thus become a threat to the US.

Finally, Chapter 10 provides an overall analysis of whether there is a common line in US trade policy and what security policy considerations follow. The results and findings of this book are also placed in an overall context. The extent to which US trade and economic policy are interwoven and the significance this has for assessing US foreign policy in the future is also addressed.

Finally, chapter 11 concludes this book with a consideration of the interactions of US trade, economic, and security policy and answers the initial questions of this book.

First, however, we look at American economic history, the instruments of American economic and trade policy, and the institutional restrictions to provide the basis for this book. These topics will be presented in a somewhat condensed manner; extensive books could be filled with the respective individual aspects.

## **2 Economics in American History and Politics**

The American state came into being through the struggle of many individuals from different parts of the world. Under the conditions of the 18<sup>th</sup> century, their journey was linked to brutal realities. One reality was that only economic success was and is the currency that led to a successful life. For most people, this meant equally a judgment of life and death. Market economics and capitalism played a prominent, not always honorable role in American history, for many aspects were subordinated to it, not the least of which was the issue of Native Americans, ethnic inequality, women's rights, and sustainability. However, the role of market economics is central to understanding the genesis of American self-understanding and American security, economic, and trade policy. Today, American economic policy is primarily associated in the public mind with a liberal stance favorable to free markets. But this has only been the case since World War II. Before the American economy became liberal, as it is today, it was initially protectionist in orientation for almost 150 years, with the state closing off its market. Until the end of the 19<sup>th</sup> century, Great Britain was the most powerful trading nation, after which the US replaced Great Britain.

History has shown that free trade is the preferred economic form of the world's strongest economies because they benefit the most from it. Thus, it is by no means clear that the US will always be committed to free trade in the future. It is clear,