

THE COMMERCIAL DIPLOMACY INITIATIVE

Five Days in Dallas to Advance Commercial Diplomacy

DECEMBER 2022



“Surely, we can do better.”

- Ambassador David C. Miller, Jr.

In December 2022, the Cox School of Business at Southern Methodist University (SMU) and the U.S. Diplomatic Studies Foundation (DSF) convened U.S. government officials and business leaders to jump-start creative collaboration between the American private sector and government.

Decentralized collaboration based around informal communication will be essential in arming both U.S. firms and U.S. department or agencies with the skills and knowledge to adapt to the transformational changes that are taking place in the area of geopolitical competition. Foreign state intervention in economic affairs is putting the international order under strain, which raises important questions about whether and how the role of the United States Government (USG) in the economy should evolve. The traditional American approach enlists the private sector as the engine of the U.S. economy while USG officials are the front-line in advancing U.S. national interests. To continue the trend of prosperity and relative international peace enjoyed over the past 75 years, those charged with advancing American national interests and those incentivized to drive U.S. economic growth must develop an increased understanding of one another’s objectives, operating environments, challenges, and available means.

During the weeklong conference, USG officials engaged with panelists and speakers across a variety of topics related to American business initiatives and visited four companies to better understand how American companies “do business.”

This report summarizes the insights generated throughout the conference. We start by describing the objectives of firms and government to contextualize the discussion. Then, we highlight some of the key challenges faced by firms and government and describe some potential ways forward that emerged from the conversations. We conclude by describing why *creative collaboration* between the private and public sectors, stimulated and facilitated by academia, will be key in enabling a perpetual economic advantage for the United States while preserving American principles and values.

Contents

4

Understanding the Actors

8

Operating in a Global Market: Problems, Perspectives, and a Way Forward

20

Synergy through Creative Collaboration

22

Realizing the Vision

Understanding the Actors



A better understanding of how firms and the USG behave, perceive each other, and interact lies at the basis of strengthening the position of the United States to overcome the many challenges ahead, to capitalize on the emerging opportunities, and to flourish for decades to come. In this section, we discuss the objectives driving their actions and the limitations constraining them.

The Objective of the Firm

Following Adam Smith's assertion that "it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest," (1) we start from the premise that a firm's objective is to maximize profits. Profit is the difference between the revenue generated from sales and the costs of production. To maximize profit, firms seek to maximize revenue while minimizing cost. Companies choose to expand into international markets for various reasons, each of which should increase revenue or reduce expenses.



As the global economy became more interconnected, businesses moved production to locations where they can access lower-cost materials and labor, and then sold the finished products in markets where people were willing to pay higher prices. For example, a clothing

manufacturer could decide to open a factory in a country with cheap labor, and then sell their products in high-end department stores in other countries. This strategy allowed the company to take advantage of lower production costs and higher demand for their products in different parts of the world.

Traditionally, businesses have made decisions about where to do business based mainly on economic considerations, such as the cost of production and the potential for profit. Social and political issues, including the risk of conflict or instability, were often considered as factors that could increase the cost of doing business in a particular location, through higher risk premiums or other additional expenses. In recent years, however, geopolitical considerations have started to play a more significant role in business decisions about where to operate. This is partly due to the growing influence of state-backed enterprises and the increasing interconnectedness of modern life, which makes it harder for companies to ignore political and social issues. As a result, businesses are facing pressure to consider the broader impact of their operations on society and national security. This development has also sparked a debate about the role of the USG and its allies and

(1) Adam Smith, *The Wealth of Nations*, 1776, Book IV, Chapter II, p. 456, para 9.

partners in the global economy. Some argue that these countries should take a more active role in shaping the rules and norms that govern international business, while others argue that businesses should be free to make their own decisions based on economic considerations.

Two key issues that limit the extent to which a firm can pursue more revenue or more cost-efficient production processes are: 1) the availability of information; and 2) the ability to act upon this information. First, sufficient information is essential for a firm to make informed decisions about how to optimize its operations and maximize profit. Without adequate data and analysis, a firm may make decisions that are not based on the best available information, leading to suboptimal outcomes. For example, a firm may not know about key business ventures abroad, resulting in missed opportunities. Second, the ability to act upon this information determines whether a firm can actually implement changes based on the information it has.

The Objective of the Government

In *The Grand Strategy of the Roman Empire*, Edward Luttwak states that a government's objective is "to provide security for its civilization without prejudicing the vitality of its economic base and without compromising the stability of an evolving political order." (2) Every National Security Strategy of the United States describes

these government priorities as enduring U.S. national interests: security, prosperity, international order, and universal values or influence. (3) To pursue these objectives, the USG leverages a range of tools and authorities, including economic policies, social policies, and military intervention.



For example, the USG can use economic policies, such as taxation, spending, and regulation, to promote prosperity and stability. By investing in infrastructure, education, and research and development, the government can support the growth of the economy and create opportunities for businesses to thrive. Similarly, social policies, such as healthcare reform or education policy, can impact the well-being and prosperity of citizens. The USG can also use military intervention to promote security and stability abroad, which may involve deploying military forces to protect American interests or to deter conflict.

Instability and violence in developing countries poses a significant threat to the security

and prosperity of the United States, but the government lacks the resources to effectively address these complex and constantly evolving problems on its own. Private companies, on the other hand, have the financial resources to substantially contribute to the economic development of foreign countries through investments and trade, bringing political stability through economic opportunity. Moreover, in many cases, the amount of money flowing from private firms to developing countries through these channels is much larger than the amount provided by U.S. agencies like the U.S. Agency for International Development.



This has led some to argue that U.S. firms should be encouraged to play a more strategic role in advancing U.S. national interests by promoting stability and security in foreign countries through profitable investments. However, this idea is not without controversy, and there are also those who argue that businesses should be free to make their own decisions based on economic considerations, rather than being directed by the government.

Like firms, the USG faces the issues of 1) availability of information, and 2) the ability to act upon this information. The amount of information available to the USG is constrained by many factors including resource limitations in terms of money and human capital, communication barriers, competing interests, and regulations. Other factors impacting the ability of the USG to act upon this information include the quality of political leadership, relevant time horizons, bureaucratic policies and incentives, and government culture.

2. Operating in a Global Market: Problems, Perspectives, and a Way Forward



When it comes to operating in foreign countries, U.S. firms and the USG often have similar objectives. This alignment of interests results from the fact that the success and well-being of U.S. firms operating in foreign countries is closely tied to the economic conditions and political stability of those countries. For U.S. firms, the key to success in a foreign market is often the ability to tap into the local market and access resources and talent. This requires a stable and supportive environment that allows businesses to operate and grow. Similarly, the USG has a vested interest in the growth and development of foreign economies, as economic independence can help promote political independence.

Countries with strong economies are less reliant on the support of other countries and are less vulnerable to external influence. Moreover, stable, and secure economies are less likely to act violently and are more likely to engage in peaceful relations with other countries.

Intuitively, this overlap in interests should be a strong catalyst for close and effective collaboration between firms and the USG when operating in foreign markets. However, while both sides acknowledge there is a lot of potential in closer and better collaboration, they also report that it is rare to see effective collaboration in practice. In this section we discuss some of the problems that lie at the basis of this issue, and outline some ways forward.

Information Asymmetry

The Business Perspective

Firm executives often perceive that government officials lack a deep understanding of the practicalities of running a business. Many government officials tend to have limited

experience in profit and loss responsibilities, leading firm executives to believe that they may not fully grasp the problems businesses face. Such lack of understanding can make firms hesitant to follow or seek advice from government officials, as they may not be confident in its effectiveness.



On the flipside, firms recognize that the government has access to vast data about foreign governments and their people, which could be valuable in decision making. However, firms may struggle to access this information due to a lack of clear channels for obtaining it or the substantial time and effort that is typically required to obtain it through official channels. For example, a firm may need to go through several months of meetings and bureaucratic processes to obtain information from a U.S.



department or agency about infrastructure in a foreign country, leading them to conclude that it is not worth the effort.

The Government Perspective

From the perspective of government, firms are often not appreciative enough of the security externalities resulting from their business dealings. While firms are focused on growing their business, their actions can have significant consequences for national security and foreign relations. In addition, government officials recognize that firms often have a unique insight into local communities due to their close interactions with the local population, and therefore may have access to information that government officials do not.



Obtaining this information can be difficult as it may result in undermining the trust that firms have in the local area or the trust that locals have in the firm. This can create uncertainty and harm business, making it challenging for the government to obtain the information it needs. Additionally, the USG may have information that businesses would find useful, but the information may be classified or scattered across

different departments and agencies and bogged down by bureaucracy. Or, alternatively, sharing it with one firm may be perceived as favoritism.

A Way Forward

► Build personal relationships:

Firms with international ambitions and government officials can benefit from getting to know each other and building mutual understanding through regular meetings and conversations. Government officials should strive to know which U.S. firms are operating in foreign countries and reach out to them to discuss issues and explore potential areas for collaboration. Conversely, business leaders should also strive to coordinate proactively with government when planning business initiatives abroad.

► Leverage the credibility of the transmitter:

Government officials can use information obtained about the successes and failures of one business in a particular country to provide guidance and lessons to other businesses, leveraging their credibility as a trusted source of information.

► Educate business about existing government structures and resources:

The USG can help businesses by educating them about the various departments and resources that exist to support their international endeavors. This may require bolstering these

government institutions to better handle the current volume of requests for assistance. In addition, the U.S. departments and agencies should take steps to make it easier for businesses to obtain the information and support they need.



► Enhance business acumen among government officials:

By prioritizing business acumen government officials can better understand the importance of supporting businesses and the role that economic stability and democracy play in promoting U.S. interests. This will require providing training in business concepts to U.S. economic officials and incentivizing participation in such training by explicitly recognizing the value of this knowledge in their career path.

Mismatched Time Horizons

The Business Perspective

Firms often have a long-term perspective when it comes to investments while the government is accused of making decisions based on short-term considerations, such as winning votes for the next election or responding to a

diplomatic incident. Such perceived mismatch can be particularly problematic when firms make investments with the long term in mind, only to have the government change policy and laws based on recent developments without regard for existing firm investments.

Firms often invest a significant amount of money upfront to start a business venture, and it can take a long time before they see returns on those investments. In this context, the frequent changes in economic policies by the government, such as tariffs, incentives, and trade restrictions, can be a major hindrance to businesses.



These changes can create uncertainty and disrupt the stability and predictability that businesses need in order to make informed investment decisions. In fact, businesses often prefer to have no incentives and let the free market operate rather than incentive structures that are not stable or not secured for the long term. This is because businesses need legal certainty in order to make informed decisions about their investments and long-term planning.

The Government Perspective

From the USG perspective, the problem of the time horizon mismatch with businesses results from a perception that firms are too focused on short-term considerations such as their quarterly business reports and stock prices. In contrast, the government sees itself as playing a long game when it comes to national security interests and other important policy objectives. One example of this mismatch is the case of South Africa and apartheid. In the 1980s and 1990s, there was significant pressure from the U.S. public on companies to disinvest from South Africa due to concerns about human rights and the apartheid regime.



Many firms were under pressure to leave the country to keep up with public opinion and maintain their reputation. The government saw the situation differently. It understood that firms might need to leave South Africa for ethical reasons or to keep up appearances, but it also wanted them to keep in mind how they would reenter the market in the medium to long term. The government saw the importance of

maintaining a stable and prosperous South Africa for the long-term benefit of the country and for global stability. In this case, the government wanted firms to forgo short-term profits in order to help the struggling economy of South Africa develop, which would create a new market of customers for their products in the future.

Overall, the time horizon mismatch between businesses and the government can lead to problems when the government is trying to pursue long-term policy objectives that may not align with the short-term interests of businesses. In these cases, the government may need to communicate its long-term perspective to businesses and try to convince them to consider the bigger picture when making investment decisions.

It is interesting to note that both U.S. businesses and the USG perceive the other party as being too focused on the short term. Both argue that the other does not pay enough attention to the long-term consequences of their actions, which are often considered more important. This disconnect is intriguing, as it also provides a clear pathway for reconciliation. By understanding that the other party also cares about the long-term consequences, they can give each other some grace when it comes to perceived negative short-term consequences. Such mutual understanding could help to bridge the gap between the two parties and facilitate more productive and effective collaboration.

The perceived disconnects between U.S. businesses and the USG can also be tied to the idea that they each do not recognize the heterogeneity of the other party. When complaining about the other side's perceived shortcomings or short-sightedness, both parties tend to see the other as a monolithic actor. For example, the government may speak about the motivations and actions of "the private sector" as if it were a unified entity, but in reality, the private sector is very diverse in terms of what firms care about and how they operate.



Similarly, firms may complain about "the government" doing something, but the government is made up of a wide range of different departments and agencies with varying objectives and authorities. This lack of recognition of the other party's heterogeneity can lead to misunderstandings and further contribute to misalignment between U.S. businesses and the USG.

A Way Forward

► Strive for policy consistency:

Government should be consistent and should consider continuity when putting a policy in place, rather than making sudden changes that can create uncertainty for businesses. By ensuring the stability of policies over time, the government can reduce risk for firms and allow them to think strategically and consider the long-term economic and geopolitical implications of their investments.

► Incentivize business decisions of national strategic importance:

If the government wants firms to make or refrain from making certain business moves for the sake of national security, it should provide an incentive structure that supports those decisions. By providing appropriate incentives, the government can encourage businesses to align their time horizons with those of the government and make decisions that benefit the country in the long term. For example, if the government wants a company to stay invested in an economically unviable environment, it should find ways to make the environment economically viable.

Lack of Continuity

The Business Perspective

Firms often establish relationships with the government in order to advocate for their interests and stay informed about important



policy developments, but this can be challenging due to the high level of turnover in government. Through various election cycles, government officials change frequently, making it difficult for firms to maintain consistent contact with key decision makers. The problem is exacerbated by the fact that many government positions are appointed rather than elected, meaning that they are subject to change at the discretion of the current administration.

In addition, career public servants change jobs regularly and the frequent turnover of policy advisors can also cause issues, even when the decision makers themselves do not change. If a firm's primary contact person changes every few years, then it can be difficult to maintain the rapport and trust that are necessary for a productive partnership.



In the worst case, firms may find themselves with no contact at all with key decision makers, leaving them with no way to advocate for their interests or stay informed about important policy developments.

The Government Perspective

The system of political appointments, which allows for frequent changes in leadership and key decision makers, can make it difficult for the government to enact policies and achieve many of the objectives it has set for itself. For example, key economic agreements such as the North American Free Trade Agreement (NAFTA) can take multiple administrations to negotiate and implement, meaning that progress on these agreements can be disrupted if there is a change in administration.



In some cases – like the Trans-Pacific Partnership – an incoming administration may even abandon a program or policy that has been under development for multiple years, throwing out years of effort and progress towards a strategic goal in a matter of months or even weeks. Decisions made by one administration can have long-term consequences for the country's economic and strategic interests, even if those decisions were not well thought out or were based on short-term considerations. In other words, the lack of continuity in government can complicate long-term planning, which can have negative consequences for the country's interests.

A Way Forward

► Keep knocking on doors:

Firms can help to build continuity and stability in their interactions with the government by re-establishing relationships with relevant government officials. By keeping in touch with key decision makers and their respective staffs, firms can stay informed about policy developments and advocate for their interests even when there are changes in leadership or key positions.

► Strengthen handover procedures:

U.S. departments and agencies can help build continuity and stability in government operations by instituting extra policies that ensure a deliberate effort is made in key areas during a transition phase from one appointee to another. This could include providing information on all relevant non-government contacts and ongoing projects to the incoming appointee to help them get up to speed on the issues they will be dealing with. Additionally, outgoing government officials should strive to make introductions and facilitate the transition process for their successors to help maintain continuity in key policy areas.

A 20th Century Government Culture and Structure for a 21st Century World

The Business Perspective

Firms often experience difficulties in their dealings with the USG that can be traced back to

a difference in cultures and operating structure. One major issue is that the institutions of the USG do not react swiftly enough to the needs of businesses. In today's fast-paced world, business opportunities come and go quickly, and waiting six weeks for a reply to a question about certain rules or regulations can be disastrous for a company.



Another problem is that the institutions of the USG do not speak with one voice. There is a lack of coherency and consistency in the messaging of the USG, leading to confusion and uncertainty for firms trying to navigate the bureaucracy. Even when a single answer is provided, it is often unclear and vague, requiring a legal expert to decipher the jargon and language intended to provide plausible deniability. This lack of clarity can be frustrating and costly for businesses trying to navigate the USG bureaucracy.

The Government Perspective

Government officials often encounter challenges when attempting to achieve their objectives within the current bureaucratic structure. One



significant issue is the existence of numerous grey areas, or situations in which there is significant uncertainty. Grey areas may arise in various forms, such as questions about the legality of a decision, who has the authority to make it, who should be responsible for implementing the actions, and who should provide financing. These grey areas create uncertainty and risk, and government officials may be hesitant to act for a variety of reasons. These uncertainties can make it difficult for officials to effectively and efficiently accomplish their objectives.

Another issue government officials encounter are the limitations on commercial advocacy, as the USG is not allowed to favor one firm over another and must adhere to the principles of the market system. The market system, as articulated by Adam Smith in 1776, is based on the idea that competition driven by the self-interest of similarly motivated individuals will result in the provision of goods and services that society wants, in the quantities society desires, and at the prices society is willing to pay. This is referred to as the “invisible hand” of the market.



However, if competition is not fair and the government interferes by favoring one firm over another, this system is disrupted and may not function as intended. It is therefore important for the government to remain neutral and not favor any particular firm in order to ensure a fair and competitive market.

A third challenge that government officials face is the existence of multiple departments working towards the same goal without coordinating their efforts. Economic responsibilities may be spread across many different government departments, each of which may operate independently within their own silos and have little communication with officers from other departments. This lack of coordination can hinder the alignment of efforts and make it more difficult to achieve common objectives. Additionally, most government officials do not have the time or resources to engage in strategic thinking due to their focus on addressing immediate issues and concerns. This can make it challenging for them to effectively plan and achieve their objectives within the government.

A Way Forward

► Cultivate a response-oriented culture:

The USG should make an effort to respond more promptly to inquiries and requests, even if it is simply to say that they need more time. From a firm’s perspective, any communication is better than no communication, and a quick “no” is often better than a long maybe. Building

personal relationships with USG representatives can also help in this regard, as they will be able to respond more quickly to urgent issues if they already have a working relationship with the firm and are familiar with their situation.

► Identify and reduce the grey areas:

Grey areas are situations in which there is significant uncertainty about what is allowed and what is not, and they can create confusion and risk for government officials. A concerted effort should be made to identify key grey areas that handicap the efficient and effective operation of the USG, and where possible, legislation should be passed to provide stable footing and support for officials to make decisions.



► Rely on distributed decision-making authority:

Whenever possible, the USG should adopt the “one butt to kick” approach, in which there is

a clear point of contact and accountability for decisions. By empowering middle-level officials to make decisions, receive rewards for good decisions, and carry the consequences of bad ones, the USG can improve the efficiency and effectiveness of its decision-making processes to better align with the speed of business. This is particularly important because otherwise, firms will often go directly to the highest possible authority to get answers and may not engage with middle-level representatives.

► Pick batches of potential winners:

While the USG should not favor one U.S. firm over another, an argument could be made in favor of supporting U.S. firms over non-U.S. firms. It would be worthwhile to examine the feasibility of this within the current legal framework and determine which laws might need to be changed to allow for such a policy. In any case, providing support for firms to advance issues of national security has proven successful in the past. For example, the rapid development of COVID-19 vaccines can be attributed in part to the government’s support for a batch of pharmaceutical companies working on the vaccines.



► **Use existing civil mechanisms to distribute information:**

While the USG cannot provide exclusive access to information to one firm over another, it can provide actionable and valuable information about business opportunities to all U.S. firms through existing civil distribution mechanisms, such as industry-specific associations like manufacturing associations, lawyer associations, and chambers of commerce. This ensures that the information is available for firms that want to act upon it and have the resources to do so, but no single firm is favored over another by the USG. By using these mechanisms to share information equally, the government can help to promote a fair and competitive market while still supporting the interests of businesses.

► **Leverage academia to tackle complicated problems:**

Academia has the resources in terms of time and knowledge to help the USG better understand complicated issues and think about different solutions and their long-term implications. By working with academics, government officials can access expertise and resources that they may not have internally, and can benefit from a more objective and analytical perspective on complex issues. This can help them to more effectively plan and achieve their objectives within the government.



3. Synergy through Creative Collaboration



A common thread that runs through our findings is that while U.S. firms and the USG often have similar objectives, they tend to work independently towards achieving them. The discussions during the five days helped identify a number of key problem areas that contribute to this disconnect including the existence of information asymmetry, a mismatch of time horizons, a lack of interorganizational and interorganizational continuity, and clashing cultures and operating structures.

We have defined specific problems in these key areas and identified worthwhile avenues towards improved processes to address these problems. In our assessment, the success of the first “Five Days in Dallas” is a result of a singular focus on facilitating creative collaboration between business leaders and government officials.

Creative collaboration is an approach that involves unstructured, decentralized, and relatively informal communication in order to solve common problems.

By fostering creative collaboration, we can leverage the ingenuity that is a bedrock of the American entrepreneurial spirit, and we can empower U.S. firms and the United States Government to tackle the many challenges that lie ahead.



4. Realizing the Vision



The great strength of the United States – its economic power – is rooted in the “encouragement of the entrepreneur”, so the best way to maintain a perpetual economic advantage while upholding American principles and values is to follow that entrepreneurial spirit towards creative collaboration between the private sector, government, and academia.

The “*Five Days in Dallas to Advance Commercial Diplomacy*” event organized by SMU Cox and DSF has helped to outline what creative collaboration entails, but our work is just beginning. In order to achieve real-world change through creative collaboration, we must develop the ways forward we identified, stimulate their implementation, and assess their impact. We plan to pursue these objectives through various initiatives.

First, SMU-DSF will be hosting future events similar to the “Five Days in Dallas” conference in order to continue developing and advancing the proposed ways forward, as well as tackle other challenges that may hinder the U.S pursuit of a perpetual economic advantage. These issues are diverse and numerous, including threats from state-backed actors, risks and opportunities related to cutting-edge technologies such as quantum computing and cyber and data security, concerns about supply chain stability, and questions surrounding environmental sustainability and the impending energy transition. These conferences will provide a valuable platform for stakeholders from the private sector, government, and academia to come together and creatively collaborate towards solutions to these complex challenges.

In addition to hosting conferences, we are also planning several other initiatives to advance creative collaboration between the private sector, government, and academia. One such initiative is to facilitate key informational exchanges between business and government leaders, helping to build relationships and establish a foundation for trust and future collaboration. We believe that these exchanges can be instrumental in fostering a deeper understanding of each other’s needs, objectives, and challenges, and can serve as a catalyst for finding mutually beneficial solutions to complex problems. Another initiative is to provide education and training opportunities for both government and business leaders to develop the specific skills, knowledge, and attributes necessary for effectively collaborating with the other community. These training opportunities could include workshops, seminars, and other forms of professional development, and could focus on some of the specific problem areas discussed in this report.

The insights described in this report are a first demonstration of the power of creative collaboration and the potential it holds to help ensure a perpetual economic advantage for the United States while preserving American principles and values.

“It’s only the country.”

- The Commercial Diplomacy Initiative

