US policy: Globalization and its correctives

by Chibli Mallat

It is the best-remembered slogan of the 1992 presidential campaign. "It's the economy, stupid!" was the symbolic nail in the coffin of George Bush senior. Clearly though, foreign policy is as important as economy. It's self-delusion to ignore the immense power of the conglomerate heirs to the Seven oil Sisters, communication industry mega-mergers, or Bill Gates' software empire. The good old military-industrial complex – once decried by president Eisenhower – leads the international economic game. The military-industrial complex was, and is, the major actor in America's world policy, in trade and otherwise.

Once the world identifies US "national interests" with those of its corporate leaders, how much room for maneuver does a US president have, and on whom can he rely to reduce the awesome power of corporate America? Some countervailing giants have emerged on the international scene, in Europe and Japan for instance. But there is no means to measure a US president's accountability if his policy wrecks the European or the Japanese economy, let alone its impact upon the social and economic structure of Africa or Latin America.

Inside America the place of the world is even more marginal. With the exception of a few lobbies such as the Israeli AIPAC, those left behind by the New Economy have little or no way to wield influence, save in localized violent actions against such American symbols as McDonald's – such acts are morally intolerable and politically counterproductive.

It would be useful to increase Capitol Hill's understanding of the foreign concerns – as was done particularly effectively in the Iraq Liberation Act, passed by Congress in 1998 to promote active American support for democracy in Iraq. Though the act has yet to be seriously implemented, it demonstrated that the foreign economic agenda of an American president responds almost exclusively to domestic impulses led by corporate America. One suggestion, therefore, is for foreign concerns to build up their American constituency.

This is of little concern to an American president. The US executive's room for maneuver, one should then conclude, is reduced considerably, save perhaps in the traditional field of international trade, which is the natural channel of foreign economic policy.

International trade liberalization and free trade has been actively pursued since World War II brought America out of its isolationist mood. Free trade has been a central US foreign policy concern ever since.

Contrary to conventional wisdom, however, US presidents have not always been blind believers in free trade, or in markets' magic invisible hand. All countries must protect their nascent markets, and the fragile industry in 19th century America needed a significant dose of protectionism to survive. Once an industrial sector comes of age, however, free competition becomes logical. Cloaked in the legal jargon of international trade as the Most-Favored Nation status (MFN) – whereby one country agrees not to impose tariffs on another that are higher than those levied on their best trading partner. The MFN logic is associated with the General Agreement on Tariffs and Trade (GATT, created in 1947) and its successor, the World Trade Organization (WTO, established in 1995). The first priority thus is the presidential drive to a worldwide WTO, from the current 139 members to the 190-strong UN membership.

While the principle must be granted, correctives are necessary, even for free trade's most committed supporters. Following on GATT-elaborated and home-grown US legal correctives, subsidies, dumping, and cartel practices have been banned in the WTO. Most-favored nation principles – meaning equal import duties for all – will be firmly established, including for China, which is soon to fully join the system.

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This is fine, but insufficient. Trade correctives are insufficient because much of the driving force of the world economy is financial and/or labor-intensive. Until we have a clear idea of what "free trade" means for finance and services, there is little an American president or anyone else can do. This is also why the world has been concerned since the mid-1990s with GATS, the General Agreement for Trade and Services, which entered the fray along with the WTO.

What is still beyond the expanded WTO's pale, however, is labor. The second priority should be serious consideration in America about freedom of movement for workers on the world economic scene. This means bringing down the immigration barrier. The 21st century would be well inspired by the 19th, when a person was freer to move around in the world. The full freedom of movement for the citizens of the world is part of a WTO-led agenda.

As for the liberalization of services, the picture remains unclear. What GATS has ushered in is important, if only by acknowledging the importance of services. For a country like the US, as noted in a report by the presidential Council of Economic Advisers in November 1999, this is crucial: "Since 1994, US financial service exports have grown, on average, by 24 percent annually."

It is therefore key in America's national interests to see open markets for its services. This, however, is less alluring for the rest of the world, which is being transformed into a consumer of US services, and only exceptionally as a producer. There is no equivalent to Microsoft outside America, and the recent anti-trust case which the government won against the Bill Gates' Empire should give some consideration to Microsoft's dominance in the rest of the planet, where anti-trust legislation is unheard of.

But the situation is murky, and a corrective to such monopolies yet to be devised within the WTO. Until that picture is clarified on more scientific grounds – an issue we shall deal with in more detail in another article – a US president will be tinkering on the edge, and GATS and the WTO with him.

This caveat notwithstanding, much could be achieved symbolically. The banking industry is a well-honed machine which has deep roots in the world economy, but it has not always been wise. Witness the accumulation of Third World debt which is detrimental both to the banks and to the societies which they smother. While it is widely acknowledged in the international banking milieu that debts contracted since the 1970s are pretty much unrecoverable, a timetable for phasing them out of the books should allow a fresh start for usury-ridden third world plutocracies, including Russia. On the agenda of an American president, the third priority for a world trade and services policy is a quick, formal end, to international debt.

A fourth priority could adapt basic correctives from "conservative" economic philosophy: phasing out tax havens, curbing illicit money – from Colombia's drug mafia, and sex and other types of human slavery from Malaysia to the Middle East – and driving out corruption in world transactions. Such a projection of "honest" American values is more needed than ever in the world economy.

The tools are in the legislative field, most remarkably in the Foreign Corrupt Practices Act, which penalizes US companies for bribes and kickbacks paid abroad. All these correctives can be better defined, better implemented, and better advertised, and the multilateral efforts on that score, such as in the OECD and EU conventions against corruption, must be multiplied. Implementation may be elusive, but there will hardly be a dissonant voice in public, so universal have these values become. This central issue is the emergence of an economic rule of law in the world, alongside the classic rule of law advocated earlier.

Two items on the list of a proactive US president may be worth probing. Three years ago John Donohue mentioned the emergence of the "Caux principles" in the international corporations ("Doing business and doing what's right", Daily Star, 28 March 1997). These principles seek to transform business partners at all levels – consumers, workers, and owners – from "shareholders" to "stakeholders". Enlightened CEOs have adopted these global business standards as a code of conduct. A US president has many ways to promote "Caux corporations", transforming the code of conduct into legally binding principles for international business. This is a fifth priority for a US president.

A more radical avenue is fiscal, and would bring some order and discipline to the "electronic herd." The word is the felicitous coinage of Thomas Friedman about that inchoate mass of financiers, investors and stockmarket players who move ten times more money a day than international trade across the world. The figures are staggering, and stand at $1.3 trillion a day in foreign exchange transactions.

Tax international fluxes? Yale University's professor James Tobin has been long associated with this project, which would yield immense revenue, and redirect foreign transactions away from quick-buck speculation to constructive investment. Tobin explained the taxes in a recent interview: "Those transactions would be taxed at a very low rate, something like one tenth of one percent per dollar per transaction. They would be levied by each country on transactions originating in the country, and collected by the country's usual tax authority."

For the moment, the Tobin tax remains beyond the intellectual horizons of today's world. But there have been promising moves in that direction by Canadian, French and other European legislatures in the past year. While Tobin himself seemed skeptical until recently about its likely implementation in the foreseeable future, one never knows about sudden dynamics in the US Congress on that score, even from arch-traditionalists as Senate Foreign Affairs Committee Chairman Jesse Helms. After all, Helms was a key figure behind the Iraq Liberation Act, and the Tobin tax is not directed solely at the American citizen.

Tax international financial transactions as a realistic sixth priority? Maybe not, but "it's the world economy, stupid!" is a meaningful slogan for 21st century stability.

Chibli Mallat is a professor of law. This is the 17th article in his Daily Star series on the agenda of the next US president. Next article will conclude foreign policy