

US Foreign economic policy: free trade and its correctives

“It’s the economy, stupid !” is the slogan best remembered from the 1992 presidential campaign. In the defeat of George Bush senior, as in all nation-wide elections in America, the economy was not the only factor, but it was undoubtedly a major one. The economy’s central importance is no less true for foreign policy, and it is self-delusion to ignore the immense power of the conglomerate heirs to the Seven oil Sisters, the mega-mergers in the communication industry or Bill Gates’ software empire. Corporate America, or the good old military-industrial complex once decried by president Eisenhower, leads the international economic game. The military-industrial complex was and remains the major actor in America’s world policy, in trade and otherwise.

Once the identification, across the world, of US “national interests” with those of its corporate leaders is acknowledged, what room of manoeuvre is left to a US president, and who could he rely on to reduce the awesome power of corporate America ? While some countervailing giants have emerged on the international scene, in Europe and Japan for instance, there is no direct measure of political accountability for a US president if his policy wrecks, directly or indirectly, the European or the Japanese economy, let alone in the social and economic structure of Africa or Latin America.

That is, on the world scene. Inside America, the place of the world is even more reduced. With the exception of a few lobbies such as the Israeli AIPAC, those left behind by the new world economy have little or no way to wield influence, save in localised violent actions against McDonald-type American symbols, acts which are morally intolerable and politically counterproductive. While it would be useful to increase foreign concerns on Capitol Hill and otherwise, as was done in a uniquely effective way in the Iraq Liberation Act, passed by Congress in 1998 to promote active American support for democracy in Iraq (though yet to be seriously implemented), the specifically 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, on Capitol Hill and elsewhere.

The avenue, however, is of little concern to an American president. Any room for manoeuvre, one should then conclude, is reduced considerably for the head of the US executive, save perhaps for the traditional field of international trade, which is the natural channel of foreign economic policy.

Let's look at international trade first to assess a willing president's margin for manoeuvre, an area which has been actively pursued on the basis of free trade and liberalisation since World War 2 brought America out of its isolationist mood.

Since the Second World War, free trade figures at the heart of US foreign policy global concerns. Contrary to conventional wisdom, however, US presidents have not always been blind believers in free trade, or in the magic hidden hand of markets. For one, any country has to protect its 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, the logic becomes inevitably one of free flow and free competition, cloaked in the legal jargon of international trade as the Most-Favored Nation status (MFN), whereby countries agree not to impose on another country higher tariffs than the ones levied on their best trading partner. The MFN logic is associated with the General Agreement on Tariffs and Trade (the GATT, created in 1947) and its successor, the World Trade Organisation (WTO, established in 1995). Item 1 therefore is a presidential drive to a full-planet 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 US home-grown legal correctives, subsidies, dumping, and cartel practices have been banned in the WTO, and most-favoured nation principles — meaning equal import duties for all — firmly established, including for China, which is soon to fully join the system.

This is fine, but insufficient. The reason for the insufficiency of trade correctives is precisely this: much of the driving force of the world economy is financial and/or labour-intensive, and 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 labour. Item 2 should be a serious consideration in America to the freedom of movement for workers, and by extension, for people, on the world economic scene. This essentially means bringing down the immigration barrier. The 21st century would be well inspired by a return to the 19th, when a person was freer to move around in the world. Item 2 is a WTO-led agenda for full freedom of movement for the citizens of the planet.

As for the liberalisation 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 United States, as noted in a report by the presidential Council of Economic Advisers in November 1999, this is crucial: "Since 1994, U.S. financial service exports have grown, on average, by 24 percent annually in nominal terms." It

is therefore key to 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, Inc. outside America, and the recent anti-trust case which the government won against the Bill Gates' Empire should give some consideration on Microsoft's dominance in the rest of the planet, where anti-trust legislation has not been even heard 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 a more scientific ground, an issue we shall deal with in more detail in next article, a US president will be tinkering on the edge, and GATS and the WTO with him.

This central caveat notwithstanding, much symbolism could be arguably achieved. 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 themselves and to the societies which they smother. While it is widely acknowledged by 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 plutocracies in the Third World, including Russia. On the agenda of an American president, item 3 for a world trade and services policy is a quick, formal end, to international debt.

Item 4 could herald basic correctives adapted from "conservative" economic philosophy: phasing out tax havens, curbing illicit money, from drug-run Colombian mafia to sex and other types of human slavery all the way from Malaysia to the Middle East, driving out corruption in world transactions, such projection worldwide of "honest" American basic values is more needed than ever in a world economy. Tools are there in the legislative field, most remarkably in the Foreign Corrupt Practices Act, which penalises 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. While practise may be elusive, there will hardly be a public dissonant voice, so universal have these values become. This central item is part of the emergence of an economic rule of law in the world, alongside the classic rule of law advocated in earlier articles in this series.

Moving across the spectrum from "conservative" values to a more "committed" foreign economic policy, two items may be worth probing on the list of a proactive US president. Three years ago, my colleague John Donohue had mentioned on this very page the emergence in the international corporate world of the "Caux principles" ("Doing business *and* doing what's right", *Daily Star*, 28 March 1997). These

principles, which seek to transform business partners, at all levels – consumers, workers, owners – from “shareholders” to “stakeholders”, establish standards for global business which enlightened CEOs have adopted as a code of conduct. A US president has many ways to instill incentives for the promotion of “Caux corporations”, transforming in due course the code of conduct into legally binding principles for international business. This is one proactive 5th item for a US president.

A more radical avenue is fiscal, and would bring some order, and a little 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 dollars a day in foreign exchange transactions.

Tax international fluxes ? The name of professor James Tobin, from Yale University, has been long associated with this fiscal project, which would yield immense revenue, and redirect foreign transacting away from quick-buck speculative profits to long-term constructive investment. The Nobel-prize winner explained the so-called Tobin taxes in a recent interview: “Those transactions would be taxed, at a very low rate, something like one tenth of one per cent per dollar per transaction. The taxes would be levied by each country on transactions that originate in the country, and collected by the usual tax authority of that country.”

For the moment, the Tobin tax remains beyond the intellectual horizons of a frenzied world where the next hundred years will not see the sophistication of domestic fiscal facilities grow outside the strict G-8 economies, but there have been surprisingly promising moves in that direction by Canadian, French and other European legislatures in the past year. While the conceiver of the tax himself seemed until recently skeptical 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 like Senate Foreign Affairs Committee Chairman Jesse Helms. After all, Helms was one key figure behind the Iraq Liberation Act, and the Tobin tax is not solely, or even primarily, directed to the American citizen.

Tax international financial transactions as a realistic item 6 ? Maybe, maybe not, but “it’s the world economy, stupid !” is an equally meaningful slogan for the stability of the 21st century.