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BOOK EXCERPT

A Foreign Policy Harmful to Business

Unilateralism imperils global economic stability, says Yale's Jeffrey Garten

Jeffrey E. Garten is dean of the Yale School of Management and an Economic Viewpoint columnist for Business Week. *He served on the staffs of Secretaries of State Henry Kissinger and Cyrus Vance and was an officer in the 82nd Airborne Division and the U.S. Special Forces. Garten was an investment banker from 1979 to 1992. He was Undersecretary of Commerce for International Trade in the first Clinton Administration.*

In an upcoming book, he analyzes the economic risk of President Bush's foreign policy.

Not long from now, American forces may be entering Baghdad. We can only hope that the U.S. and whichever of its allies join it are successful in toppling Saddam Hussein and making way for a less malevolent regime. Count me among those who believe that the Iraqi dictator must be forced out and that whatever weapons of mass destruction he possesses must be eliminated. But we should not lose sight of the fact that whenever the war begins, however it is conducted, and however it ends, the underlying direction of American foreign policy has veered sharply from its course of the last decade. It is a dangerous shift, based on a mistaken reading of the most important forces shaping the world and the way to exert constructive influence over them.

In the Bush Administration's disdain for the hard work of cultivating allies until the U.S. is pressed to the wall; in its radically new doctrine that the U.S. has the right to preemptively attack others in the name of self-defense when it alone determines there is enough of a threat; in the way it has given short shrift to international trade, finance, development, environmental policies, and the strengthening of international institutions--in these and other areas, America has militarized its foreign policy at the expense of a large number of other goals. As a result, it has widened the gap between America's immediate security goals and its critical longer-term requirements for international cooperation. No one should argue that national security isn't paramount, but the more urgent issue is how should we define and pursue it so that a broader range of our critical interests are advanced, too.

When you look around at the American political landscape, however, who is it that can and will forcefully raise this issue? Certainly no one in the Bush Cabinet is going to challenge the President, Vice-President Dick Cheney, Secretary of Defense Donald H. Rumsfeld, and the other hard-line nationalists. Don't look to our Congress, rarely known for its global viewpoint, let alone for taking principled stands that could cost votes. As for the public, there won't be any state or local referendums in the upcoming midterm elections offering alternatives for how America wields its enormous influence abroad.

Only one group has the experience, the knowledge, the perspective, and the clear self-interest to provide some countervailing influence to the dangerous ways that Washington is throwing around American military power--and that is the nation's top business leaders.

They are, after all, the men and women whose operations depend heavily on revenues from abroad. Their complex logistical systems and research capabilities span continents. Their businesses rely on financing from international banks and local stock markets. Their workforces include millions of overseas employees. Their companies have planted increasingly deep roots in diverse local cultures. The best of them are pro-market while understanding the need for sound regulation within and among nations. They are the only obvious champions for an internationalist approach appropriate to an era in which globalization and the expansion of markets are the defining forces.

The problem is that the voices of America's CEOs are nowhere to be heard, and understandably so. Their stature and credibility have been seriously tarnished by corporate scandals, and they have little standing on public policy these days. They have their hands full in regaining public trust while still competing successfully in a hypercompetitive global economy. It is my hope, nevertheless, that they can dig themselves out of their reputational hole. It is a hope based on my sense that the heightened vigilance to CEO responsibility and corporate governance, forced on Corporate America by public outrage, investor behavior, congressional legislation, and more aggressive regulators, will have an immediate and positive impact on business conduct and public perceptions of it. If there is a turnaround, I would like our top business leaders to have a strong voice on a range of the nation's most vital policies, including its foreign relations.

After all, until World War I, U.S. diplomacy was based primarily on the advice of President George Washington that we should have commercial relations with all countries and entangling alliances with none. For well over its first century, American foreign policy was a partnership between government and business, driven by efforts to keep markets open for exports and investments.

It wasn't until after World War II, when the U.S. undertook responsibilities for defending the free world against the Soviet Union, that economic and commercial considerations were overshadowed by political and military goals. But even then, Washington's notion of containing Moscow and its strategy for winning the Cold War was based in large part on a goal of ensuring the social cohesion and economic prosperity of the West. Freeing up trade and investment flows across borders was a major part of that effort. And building multilateral institutions as a foundation for the global economy was central. From the Marshall Plan to the creation of the International Monetary Fund and the World Bank to the push for successive rounds of trade-liberalizing talks, business leaders worked hand-in-glove with Washington.

When the Berlin Wall was torn down in 1989, the overlap of America's foreign policy and its global economic and business interests was even clearer. Indeed, the environment seemed more like the pre-World War I days than post-World War II. As Under Secretary of Commerce for International Trade in the first Clinton Administration, I helped shape policy. The biggest issues the Administration faced were not military in nature but competition with Japan and Europe, financial crises in Latin America and Asia, negotiations over the North American Free Trade Agreement, and the establishment of the World Trade Organization and China's entrance into it.

In Washington's eyes, the policies of the IMF, the World Bank, and the WTO were bigger issues than the future of NATO. The opening of Japan's markets was more critical than its military posture in Asia. The ratings that Standard & Poor's gave to Indonesia was of greater significance than sending our military advisers there. We pushed deregulation and privatization. We mounted massive trade missions to help U.S. companies win big contracts in emerging markets. Strengthening economic globalization became the organizing principle for most of our foreign policy. And American corporations were de facto partners all along the way.

I'll admit that the Clinton Administration probably went too far in conducting a foreign policy so oriented to commercial and economic interests. For one thing, a vast global terrorist organization, al Qaeda, emerged under our noses. Saddam Hussein was allowed to flaunt the U.N. directives with impunity. Even when it came to issues such as financial deregulation, it is now clear that we pushed for too much change in too short a time frame and that many countries did not have the policy underpinnings to accommodate turbulent markets. But now the pendulum has swung too far in the other direction. It's too much force of arms, too little focus on the long-term economic and social issues that are also a part of national security. If our foreign policy doesn't swing more to the center, disastrous consequences could follow.

No one can know for sure how globalization will play out, but there are two equally possible scenarios. The first is a rough extrapolation of what has already taken place: a steady increase in global trade and investment across the globe, stimulated by lower trade barriers and the deregulation of industries around the globe. In this scenario, the underlying forces of global economic integration are not stopped.

The other possibility is a precipitous slowdown in globalization, with nationalism winning the day. Trade and foreign investment do not stop, but the intense momentum of the last 20 years dissipate. There is a tightening of borders and new regulations on money flows, immigration, and transportation that accompanies the global war on terrorism. These act as a strong drag on any further opening of the world economy. A gradual rise in protectionism takes place, led by escalating tensions between the U.S. and Europe over export subsidies, steel, agriculture, genetically modified food, and privacy regulations. Whole regions of the world, such as the Islamic countries between Morocco and Saudi Arabia, are engulfed in political turmoil. An increasing number of governments, beginning with most of Latin America, reject policy prescriptions designed in Washington and on Wall Street. Global economic growth enters a long period of stagnation, and the world economy increasingly fragments.

What makes the present moment so important is that American policies may well be the decisive factor determining which of these two scenarios describes the future. The global economy is already quite weak. The growth of trade has dropped significantly, as has global foreign investment. Massive overcapacity in industries--steel, autos, telecommunications, air transport--hangs over the industrial structure. Stock markets everywhere are heading lower. The U.S. economy is fragile, and Japan and Germany have deeply chronic problems. We need to focus on getting the global economy back on track, but we aren't.

For the U.S., the stakes are especially high. We can afford to import far more than we export only if we can continue to borrow a billion dollars a day from foreign sources. Up to a quarter of our economic growth depends on exports. Our low inflation and interest rates depend on low-price imports. Our high level of productivity reflects sophisticated just-in-time global logistical systems. Our defense capabilities are heavily tied to the importation of electronic components from Asia. Our entrepreneurial culture is fueled by large-scale immigration. We need a smoothly functioning, open world economy as never before.

A number of the most fundamental tenets of the Bush Administration's foreign policy go against our global economic and business interests. Take, for example, its extreme unilateralism. Washington may well gather international support for its invasion of Iraq, but it will be only after every one of its allies except Britain has strenuously objected to the U.S. going it alone. It's hard to recall so many nations opposing the U.S. in such a high-pitched fashion.

No one trying to defend America's national interests can plausibly argue that we shouldn't pursue our interests aggressively or that the U.S. should accept policies just to appease our friends abroad. But we have an Administration that has stridently rejected every treaty that has come along--those designed to protect the environment, deal with nuclear and biological weapons proliferation, and prosecute international criminals--without signalling that it is willing to make modifications or to offer alternatives. It is the kind of behavior that historically has caused nations to unite against previous superpowers, from the Roman Empire to Britain.

This king-of-the-hill approach is at direct odds with achieving what America needs--more cooperation from other governments on a huge range of global issues. Such collaboration includes intelligence and law enforcement to pursue terrorists, but goes much further. For example, America needs rules for international trade to give the U.S. access to markets and the means to redress infractions of negotiated rules. The same goes for international investment. U.S. banks would be helped by a stronger regime for global banking regulation. American companies could benefit from the adoption of international accounting standards. They would be helped by a harmonization of antitrust rules in place of the 60 different sets now in force. And stronger protection for intellectual-property rights is critical to high-tech companies. How could we possibly believe that other nations will cooperate with us on these issues if America so defiantly depreciates agreed rules, treaties, and partnerships, the very basis of global prosperity since 1945?

A second big problem relates to Bush's policy that the U.S. has the right to invade another nation if it feels threatened. Now that Washington has announced that we are unrestrained by anything but our own sense of security, what right do we have to object if Russia attacks Georgia because of alleged terrorism, if China goes after Taiwan, if India preemptively strikes at Pakistan to take out its nukes?

The big issue is disregard for international law. The U.N. Charter places stringent limits on the right of self-defense, saying that the unilateral use of force can be used only against imminent threat of attack. The danger is that once the U.S. brazenly departs from international treaties, it invites widespread cynicism about all global agreements and opens the door to other nations' flaunting them, too.

The combination of a strong penchant for unilateralism and a high-profile policy of preemptive attack is bound to add fuel to the fire of anti-American resentment already flaring around the world. Given escalating possibilities for terrorist attacks against American facilities, U.S. corporations are particularly vulnerable. The State Dept. can get increasing support from our own Marines or local police or it can close embassies when these threats seem imminent. CEOs have no such luxuries. At a time when the overseas operations of American multinationals loom so large in Corporate America's revenue picture and when so many of our essential imports come from American subsidiaries abroad, disruptions to corporate operations carry serious economic costs.

America's top CEOs should be figuring out what their collective interests are and how to communicate their views effectively. They should at least lean against the wind of highly nationalist, militaristic, unilateral, and preemptive policies and argue for a more global approach that starts with the premise that America cannot defy its key allies and expect to succeed in building a stronger foundation for the global economy. They need to be arguing for higher-level attention to trade, international banking, and securities regulation, as well as global rules for mergers, accounting, and food safety. They need to be pushing for much greater support for international institutions, especially the IMF, World Bank, and the WTO, while making efforts to enhance their effectiveness. They need to focus more attention on economic policies that reduce world poverty.

While Washington is obsessed with what it doesn't like, it needs a perspective on the world that is more than the overthrow of Saddam and the end of terrorist threats. With Washington seeing military might as the key to American influence in other spheres, CEOs ought to explain why strong armies alone don't translate into strong economies. While Washington is behaving as if American sovereignty and security is all that matters, CEOs ought to be talking about the real world, where sovereignty is waning, economic security and progress is a collective endeavor, and having allies and strong international institutions is essential.

This is a much different world than the one reflected by the Bush Administration's foreign policy. In their private conversations with government officials, in the public reports of their business associations, in their support for foreign-policy research in think tanks and universities, business leaders ought to be doing what the Administration isn't: presenting a vision for what Secretary of State Colin Powell has labeled the post-post-Cold War world.