The global economy is in harm's way
By Jeffrey Garten
FT.com site; Apr 13, 2003

Virtually all of the world's top economic officials who gathered this weekend in Washington for the annual spring meetings of the International Monetary Fund and the World Bank hope that the transatlantic political tensions over Iraq do not spill over into the area of economic co-operation.

But what if their dreams are thwarted? That could easily happen, for there is a chance - perhaps a strong one - that, with the war in Iraq now ending, George W. Bush's administration could feel emboldened. It might opt not only to reorder its foreign policy around the world but also to change its approach to the global economy in several ways.

First, Washington could try to monopolise the commercial contracts in postwar Iraq - trying hard to make sure French, German and Russian companies, in particular, feel the pain of exclusion. Otherwise, what is to stop Paris, Berlin and Moscow from opposing Washington again, so the reasoning would go. Washington might also seek a dominant role in restructuring Iraq's extensive external debts, most of which are owed to those countries that opposed the US invasion of Baghdad. The US is itself a only very minor creditor of Iraq's.

Second, the US could downgrade the importance that it has up to now attached to the Doha round of trade negotiations, in favour of many more bilateral commercial agreements. The administration could do so without having to admit it openly. It could also turn up the rhetoric about leaving the World Trade Organisation if the organisation continues to challenge US policies - as it has on export tax subsidies and steel tariffs.

Third, Washington could abandon the strong dollar policy that it has pursued for many years. Recognising that the growing current account deficit will put downward pressure on the dollar anyway, it could try to push down the US currency to encourage exports and slow imports.

Fourth, the US could press hard for changes in global development institutions to make them directly responsive to US foreign policy - all under the guise of a new American model for economic growth around the world. It could expand its bilateral aid, mixing money earmarked for security and funds dedicated to development, in an effort to exert more direct leverage over foreign governments. And it could move away from efforts to harmonise global accounting standards and antitrust regulations, unless it got its way on such issues.

Last, the US government could increase pressure on countries such as China, India and Saudi Arabia to award big projects to US companies. Washington could create a new government agency of nation-building experts, thereby lessening reliance on United Nations agencies and maximising US commercial interests in countries where big contracts will be awarded.

I am all for the US pursuing its economic and financial interests vigorously. But most long-term economic goals can be achieved only in collaboration with other nations. America is dependent on foreign capital and on overseas sources of oil; its companies have extended their supply chains to every corner of the earth; and it badly needs the help of other governments to combat global terrorism. To flex its financial muscles at a time like this would only be counter-productive.

The dangers of the US's switching from economic co-operation to self-reliance are enormous, because it is the only natural leader of the global economic system. Without US commitment, the economic system that has served the world since 1945 could easily descend into destructive protectionism.

But economic rationality may not triumph. For the Bush administration, trade and finance could well come to be seen less as ways to create wealth around the world than as instruments of a more audacious foreign policy. The administration could look at the fact that - according to Morgan Stanley - the US accounts for 30 per cent of the world's gross domestic product, while being responsible for more than 60 per cent of the growth in global GDP since 1995. That means it is the only significant engine in the global economy.

The administration may well conclude that it should wield a bigger stick than it does. It may convince itself that the European Union and Japan need an economic shock in order to reduce their structural rigidities. It may conclude that an America-first economic policy, replete with a weaker dollar and a shrinking current account deficit, would do the trick.

This administration lacks heavyweight economic officials - such as James Baker and Robert Rubin, the Treasury secretaries in the Reagan and Clinton years - to push it in the other direction. And Congress is unlikely to put up much resistance. The natural opposition to such an approach would be corporate America, which has extensive global interests. But US corporations are now preoccupied with quarterly profits and corporate governance and are virtually leaderless on matters of public policy.

I hope I am wrong, and the US sticks to a collaborative global economic policy alongside an aggressive foreign policy. But do not bet on it.

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