

## ISSUES IN INTERNATIONAL POLITICAL ECONOMY

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**Looking Inward in an Age of Globalization**

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The world is now experiencing a searing example of the speed at which a U.S. financial breakdown spreads globally. Within a month after the housing bubble burst in the autumn of 2008, the financial and credit problems in the United States spread to other countries. The banks in some countries had purchased large amounts of U.S. mortgage-backed securities, and they suffered when these assets became largely worthless. However, even countries in which banks shunned these instruments are experiencing drastic economic slowdowns. The latter include Canada and Mexico, where banks bought few of what we now call toxic assets. In less than a year from the time the problem surfaced in the United States, global wealth losses have been estimated at some \$15 trillion and global trade has fallen by about 30 percent. Japan's export decline has been 50 percent and China's 41 percent. Both these countries kept their exchange rates undervalued over long periods in order to promote exports.

Protectionism under these circumstances is intellectually equivalent to the beggar-thy-neighbor policies that exacerbated the Great Depression of the 1930s. The statement issued on April 2 by the Group of 20 countries after their meeting in London recognized this by extending to the end of 2010 a pledge not to impose new trade barriers. Unfortunately, the commitment to a standstill on trade restrictions is apt to be honored as much in the breach as in compliance. My concern is that most G-20 countries that together represent the bulk of world GDP and international trade are looking inward, even as it becomes increasingly evident that we are living in an age of globalization.

The stress in this paper will be on the United States, although it is by no means unique in looking inward. Shortly before the G-20 meeting at which the standstill on new trade restrictions was renewed, the United States cut off funding for a modest pilot program allowing Mexican trucks precleared for safety to bring cargo directly to U.S. purchasers without reloading the merchandise onto U.S. trucks at the border. The U.S. Congress essentially turned U.S.-Mexico economic policy over to the Teamsters union. Mexico retaliated with its own trade restrictions; and now, U.S. exporters of the products on which Mexico raised its import tariffs are complaining to the U.S. government—in essence, saying that the United States should

live up to its commitments in the North American Free Trade Agreement and adhere to the trade protection standstill. This pattern is precisely what happened in the 1930s—restrictions compounded by reciprocal restrictions.

It is official policy in the United States to work toward energy “independence.” I doubt that a single serious energy expert believes that this is feasible—at least during the next 50 years, short of an engineering miracle such as controlling nuclear fusion, moving wholesale to nuclear power for generating electricity, and building light, durable batteries for vehicles. (Even if battery technology works, we would still be dependent on foreign countries for the needed lithium.) One logical consequence of a policy of energy independence is to subsidize the use of corn to produce ethanol and then put a tariff of 54 cents a gallon on the import of cheaper and more efficient sugarcane-based ethanol from Brazil. By contrast, the logic of globalization is to encourage as many sugar-growing countries as possible to produce and ship ethanol to the United States rather than to look inward. There are other unwelcome side effects of U.S. ethanol policy, such as to raise corn prices and the cost of the food we consume for which corn is the major feedstock.

The United States negotiated and signed free-trade agreements (FTAs) with two Latin American countries, Colombia and Panama, and with South Korea. Colombia, to focus here on that country, already receives U.S. trade preferences under a program designed to benefit Andean countries, but U.S. exporters of goods to Colombia do not receive tariff-free entry in return—which they would under an FTA. The argument used against congressional approval of the FTA is that the Colombian government targets labor union leaders for punishment. This may have been true earlier, but cannot be shown to be taking place now. The Colombians have apparently not even discovered exactly what the United States wants them to do for the FTA to be taken up in the U.S. Congress. Canada's trade with Colombia is thriving based in part on the tariff preferences it receives because of its FTA—and, no doubt, in part because of the inability of U.S. exporters to compete on even terms.

The field in which looking inward may be most costly for the United States is antinarcotics policy. U.S. policy in this field has also foisted horrors on Mexico. Trafficking in and using drugs such as marijuana, cocaine, heroin, and methamphetamines is illegal in the United States. This illegality raises their market price, as one would expect; indeed, the United States went through this experience when the use and sale of alcohol was prohibited. The consequence of U.S. policy is to provide billions of dollars—\$20 billion, \$30 billion, we really don't know—to Mexican marketers of these narcotics. The most lucrative of these drugs for the Mexican cartels is marijuana—even though this is produced extensively in California, ostensibly on medical grounds. The Mexico-U.S. drug relationship is made even more pathetic by the inability of the United States to prevent the open sale of weapons in the United States, which are then smuggled into Mexico to the militias of the drug cartels. And this tale of horrors does not stop there. The United States generally has about 500,000 persons in jail at any one time for drug offenses, more than all of Europe together, even though this has not lowered U.S. narcotics use relative to population to a level below that in Europe. Turf fights between drug cartels in Mexico last year led to some 6,000 deaths, apparently mostly of drug dealers, but also of antinarcotics officials, police, soldiers, and bystanders. The ability to earn large amounts from drug sales in the United States is a prize worth fighting for by dealers.

I could go on, but enough already. We have adopted policies that look inward, implicitly assuming that the United States is an island that can manage its own narcotics problems even as it ignores what have always been regional and now global arrangements involving production, marketing, bribing, and killings to obtain the outsized income from the use of narcotics. For years, we blamed Mexico for the U.S. problem because the key narcotics are either produced there or shipped through Mexico (such as cocaine). Hillary Clinton, the U.S. secretary of state, had the honesty to say publicly during her recent visit to Mexico that the United States is complicit in generating the evils of the drug trade because that is where the dealers earn most of their money. Senior U.S. officials did not have the decency or courage to make this self-evident point before she spoke.

My intent is not to argue that the United States looks inward more than other countries. Indeed, I think the opposite is generally true. Developing countries that complain about U.S. trade protectionism are generally highly protective themselves. The Doha Round of multilateral trade negotiations was beset not only by agricultural subsidies of developed countries like the United States, the European Union, and Japan, but by the failure of key emerging nations such as Brazil and India to make meaningful offers to reduce their import barriers. President Nicolas Sarkozy of France recently argued in favor of moving automobile production out of another member of the European Union back to France. The proposed U.S.-Korea FTA has been held up by complaints about Korean nontariff

obstacles on importing U.S. vehicles and parts. I focused on U.S. policies because I expect more from the United States than from other countries, especially with respect to trade. The United States was the leader in opening markets after World War II, and this led to many decades of solid GDP growth and job creation.

Most of the restrictive U.S. measures cited here result from the political influence of lobby groups; and I don't know if these groups have more influence on U.S. policy today than they had earlier. U.S. sugar policy has long been dominated by sugar-growing interests. Deregulation of financial institutions that has led to so much global distress was stimulated by financial lobbyists and those who believe that the market always knows best. Different kinds of lobbyists dominate when different parties control the Congress and the executive branch—such as financial interests during Republican years and labor unions under Democrats. What troubles me is U.S. failure to practice what it preaches—U.S. protectionism even as we castigate others for their protectionism, the inability to prevent large U.S. narcotics use even as we blame others for not interdicting the narcotics before they reach the United States, or spending taxpayer money even as we subsidize our own noncompetitive goods and services providers.

I am also troubled when false reasons are given for ineffective policies. Energy independence has served as a cover for protection against more competitive foreign ethanol. The U.S. public was told that Mexican trucks should not be allowed to operate in the United States because they are unsafe; yet the evidence has shown that Mexican trucks used in the pilot program were safer than U.S. trucks. Senator Byron Dorgan, Democrat from North Dakota, introduced the legislation to terminate the pilot program for trucks and then later called the Mexican tariff retaliation outrageous because Mexico has a trade surplus with the United States. Under this reasoning, any country that has a bilateral deficit in its trade with the United States is on solid ground to limit U.S. exports to it.

The United States has many inward-looking programs that are unwarranted and wasteful, and some have been touched on here. So do many other countries, but this does not mean we should do likewise.

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