

Globalization: Economic and Trade Issues

by

Adam Berkland, Boston College; Luis Contreras, UC Irvine; Mihaela David, Skidmore College; Alia Dharssi, University of British Columbia; Dennis DiBari, Marist College; James Gorby, United States Military Academy; Peter Kim, Columbia University; Tak Man Desmond Lee, Stony Brook University, China exchange; Romain Lomaine, Berkeley College, French exchange; Seth Miller, United States Military Academy; Matthew Robinson, United States Military Academy, Elizabeth Sandheinrich, Saint Louis University; Juliane Stephan, Farleigh Dickinson University, German exchange;

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ABSTRACT

It is necessary to first deal with the current world financial crisis and put in place provisions that will help to avert any similar economic downturns in the future. As one looks to set provisions for the future, one must examine our current domestic and international financial institutions – regulatory committees at home and organizations like the IMF, WTO, UN, and regional economic blocs. In attempting to improve our own economy and those of industrialized nations, we must be sure not to forget lesser developed countries (LDC). We must provide for their advancement in order to open new markets that could prove to be beneficial in the long run. This will only be a small part of the issue of providing a base for international free trade.

This paper will make recommendations in the following areas: regulations to ensure that a financial crisis like the one we are currently experiencing does not occur again, provisions to international institutions to improve efficiency, and how to improve the economies of LDCs. Our proposal calls for a global conference with influential states and financial institutions to discuss reorganization, with the hope of creating a treaty of laying a framework for a new global structure where free trade would be encouraged in a way to benefit all parties participating. We recommend the centralization and streamlining of domestic financial regulation and a forum of international leaders to encourage discussion monitoring and consultation on international finance.

FINANCIAL CRISIS

In a time of severe financial crisis, there is a strong temptation to address only a few aspects of a multifaceted problem. This temptation tends to lead to an over-reaction and too much regulation. We must resist this temptation and proceed cautiously when developing new regulation, keeping in mind the need to continue encouraging investment and the free flow of finance – limiting hurdles to investing – in order to keep our economy growing and strong. Moreover, as the world’s markets become ever more integrated, we need new avenues for dialogue and cooperation among the countries of the world on international finance. However, we must shy away from creating a binding international finance regime or regulator that will impede nations’ sovereignty in monetary and financial matters.

Over the last few months we have faced a severe financial crisis that has shaken the economy of the entire world. As one part of the solution to this crisis, the US, as its primary originator, needs to make a few changes in its own domestic financial policy. In addition to the financial rescue package put forward by the Department of Treasury that hopes to end the credit crunch, we need to adopt a plan to reform and coordinate regulatory authority in the US. Currently the financial regulatory system is fragmented and spread across numerous government agencies. We propose a more centralized and streamlined regulatory scheme that mirrors the current structure of the Federal Reserve. A series of 12 regional regulatory authorities, with the power to monitor and regulate different financial sectors such as insurance and banking, will report to and be coordinated by a central regulatory body. Such a structure will increase accountability in the system, reduce transaction costs by standardizing and clarifying a unified national stance on regulation, increase transparency of regulation, and help to spread information about the status of markets. Our hope is that the regulation put forth by such a body will be simple, straightforward, easy to implement, and well-designed with an eye to encouraging investment and economic growth. One task that they need to confront immediately is to increase transparency in the credit rating agencies to prevent the problems of conflicts of interest that have resulted in inaccurate and overstated credit ratings.

Financial markets have become more integrated than ever before, and this is why we have experienced such serious ripple effects that have decimated markets and economies, not just in the US, but across the globe. As such there is a need for international discussion, surveillance, and coordination on finance to help prevent future crises. We propose that global financial leaders meet regularly in a forum—as they did successfully to coordinate a response to the current financial crisis—to increase the flow of information and agree on synchronized action plans to address financial problems, even in the absence of crisis.

The binding powers of such a forum would be limited to allow countries to pursue what they feel is in their best interest economically. A forum rather than a regulatory regime, this body will work by consensus rather than coercion, and will be a powerful tool to help foresee and prevent future crises. We believe that this will be a first step towards something that is needed down the road: a sober international regulatory consultative mechanism that can help preside over an increasingly fragile and integrated system of international finance.

PROTECTIONISM AND FREE TRADE

Free trade is in the best interest of the US and the global economy, but protectionism can be used as a tool to help economies reach a level of development from which they can benefit from greater international economic integration and free trade. Keeping in mind great global inequalities and the levels of economic development in LDCs, we propose that the US maintain a

different disposition towards protectionism in LDCs than developed countries. Protectionism based on timelines and a nation's strengths should be tolerated in LDCs; whereas, exceptions should not be made for developed countries. After countries have reached a mature level of economic development whereby their specialized industries are able to compete in the global economy, they should be encouraged to move towards freer trade policies and away from mercantilist ones.

Countries should be encouraged to move away from specializations in agricultural products. Developing countries that depend on the exportation of a limited number of agricultural products do not present a sustainable economic model. Policies should be applied to push countries to specialize in other areas and to decrease their dependence on these products. However, agriculture, along with defence, both constitute industries that each country should have a right to protect for national security reasons.

The U.S. should take a leadership role in green technology and innovation. This can be achieved through a policy that aims to deal with the growing pains of off-shoring in the Midwestern US by providing training for structurally unemployed persons to be employed in the development and manufacture of green technology. This is a means of evading protectionist impulses. Moreover, it can be part of a larger strategy that helps to deal with off-shoring by providing unemployed workers with training targeted at addressing shortages in other industries, such as a shortage of nurses in the healthcare industry. Furthermore, the government should make significant infrastructural and educational investments aimed at transforming the Midwest into a hub of green technology and innovation. Subsidies should be invested in education, research and technology with a focus on research institutions.

INSTITUTIONS

The impact of the recent financial crisis has made apparent the necessity for a restructuring in the organization of the international institutions responsible for the oversight of global finance and trade. An analysis of the potential forms that these institutions could take requires a number of assumptions regarding the nature of globalization and its impact on American power. First, because power is relative, the United States stands to exercise less influence as the world becomes increasingly multi-polar. Second, it is in the interest of the United States to avoid the "Balkanization" of global institutions.

The difficulties inherent in the current structure of these institutions include the overlap in function amongst many organizations, and the perception that they exist to serve the interests of Western nations, mainly the United States. In order to overcome these challenges, we propose a global economic conference to provide a platform through which to change these institutions. Ideally, this conference would conclude with the drafting of a treaty that would facilitate the reorganization of the principle international financial bodies, to include the IMF, WTO and the World Bank. These bodies would be reformed on the basis of a more equitable representation of economic powers, and the improvement of cohesion between them. This conference should include qualified states based on GDP and regional influence, as well as representatives from major economic organizations. Questions that the conference would consider include: should the world establish new organizations, how would these organizations be funded, and what powers would these organizations possess? By the end of the conference, these issues should have been answered, and institutional framework should be project for a more durable economic environment.