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SOME HIGHLIGHTS IN THE GLOBAL ECONOMY IN 2000

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This is the last commentary of the first year of monthly musings on issues in international political economy and the end of a year is a good time to strike some kind of balance. What follows are thoughts on the year's political economy highlights, some somber and others encouraging.

First, the *dis*couraging developments

1. Not only has there been limited progress in global trade negotiations, but there has been a heightening of trade conflict, especially between the United States and the European Union. Each side has been pushing hard to show its toughness, almost like children trying to outdo each other. I will give just two examples, the U.S. action on bananas and the EU's attack on the U.S. use of Foreign Sales Corporations (FSCs) to promote exports.

Each side, based on the letter of the law as expressed in the World Trade Organization (and its predecessor, the General Agreement on Tariffs and Trade), won cases against the other that held up on appeal. Each measure, the way the EU fashioned its banana preferences for ex-colonies and the tax benefit granted to U.S. multinational corporations, was bad policy-but the stridency of the retaliation was even worse. The United States, after winning its case, proceeded to impose prohibitive tariffs on 42 kinds of products, all unrelated to bananas, whose imports from the EU amounted to $191.4 million. Lobbyists for some of the more important U.S. importers got the products they buy from the EU removed from the hit list, but many small U.S. importers did not even know enough to lobby. As far as the U.S. government was concerned, the system worked. EU discrimination against a product produced outside the United States, but by a company (Chiquita Bananas) owned and managed by U.S. interests, was punished. A principle was upheld: thou shalt not discriminate. Another, more practical principle emerged: an influential person (the head of Chiquita Bananas) willing to use money to influence the political process can incite trade conflict.

The EU, after it won its complaint that the tax benefit provided to FSCs (corporations set up outside the United States, through which domestic corporations channel exports of U.S. goods) was a subsidy, then sought to get WTO approval to retaliate against the United States. The EU assertion was that it should be allowed to raise prohibitive barriers against more than $4 billion (billion, with a "b") in imports from the United States unless the subsidy was eliminated. It is not clear whether this is a negotiating ploy or a firm intention.

FSCs have been in existence since 1984. Why did the EU wait until now to push its case? Was it retaliation for the banana case? The economics of the EU argument-as distinct from the legal provisions-are weak because subsidies of this type on the export of goods are largely neutralized by exchange-rate adjustments. Indeed, this was part of the European economic analysis when U.S. corporations argued years earlier that the EU use of value-added taxes, which are exempted when goods are exported, are unfair because U.S. income taxes are not similarly exempted when goods are sold abroad. In any event, here we are at war over subsidiary economic issues, when instead the dialogue between the world's two major exporters should be on making further progress in the reduction of a host of substantial barriers that affect trade.

2. Raucous demonstrations against the WTO, the World Bank, and the International Monetary Fund have become part of the background scenery of their meetings. Legitimate grievances (such as inadequate transparency of the proceedings of these organizations) are drowned out by a variety of other objectives, such as promoting anarchy,

keeping delegates from getting to the sessions, destroying property to make a statement against multinational corporations, and preventing these global organizations from getting on with their assigned mandates. The target seems to be globalism, which is defined in whatever monstrous way the demonstrators see fit.

There is a legitimate case for peaceful public demonstrations, whether the argument being made is legitimate or not. The troubling aspect of the demonstrations being discussed is the ingathering for the purpose of shutting off speech through destructive means against organizations whose objectives represent the collective will of the international community. Developing countries will not benefit if they are unable to negotiate downward the barriers against their exports of goods and services, or if the World Bank has fewer resources to provide to them, or if the IMF cannot try to rescue these countries when their economies are in extremis.

3. The final discouraging development of the year, which I will cite, is the decline of democracy in Latin America. U.S. administrations, from Reagan to Clinton, have repeated endlessly that all governments in the Western Hemisphere, except for Cuba, are democracies. This overstates, drastically so. We know that Haiti surely is not. Many Latin American countries have authoritarian systems, or venal leaders ("corruptocracies"), or survive based on the sufferance of military leaders. Governments of the Andean region are going through turmoil that makes it hard to define them as functioning democracies. Colombia is in the throes of civil and narcotics wars, Venezuela has no effective opposition to the current regime, Ecuador has been forced to change presidents because of conflict between the government on one side and military and indigenous groups on the other, Bolivia is finding it hard to make political decisions, and Peru's president found it necessary to resign, while in Japan, because of undoubted corruption.

There are some saving counterpoints. One is that the countries of the south-Brazil, Argentina, Chile, Uruguay-all military dominated in the decade of the 1980s-have become democratic once again and are now places where there is alternation of power between political parties. A second is that even the countries where democracies are fragile find it necessary to mouth democratic principles and at least show a façade of democracy. But the fact remains that there was severe democratic retrogression in Latin America this past year.

Now, some *en*couraging developments

1. Still on the democracy theme, the nonviolent transition of power in Mexico from the Institutional Revolutionary Party (PRI) to Vicente Fox, the candidate of the conservative National Action Party (but representing a more diverse coalition-those supporting any credible candidate not from the PRI), was a signal accomplishment. The PRI had controlled the presidency for 71 years until Fox was inaugurated on December 1, 2000. Different analysts have their own explanation of why the change took place-Fox's charisma, the colorless PRI presidential candidate, public impatience after 71 years of one-party rule, the stress on market economics during the past 15 years, the repeated financial crises every six years since the mid-1970s, the painful economic downturn in 1995 after an unsuccessful currency devaluation in December 1994, the slow opening of the political system after the 1968 student demonstrations, and others.

No one can predict how successful President Fox's economic, social, and anticorruption policies will be. However, the peaceful transference of power after a generally honest election in the second-largest country in Latin America, was itself a big event. Forty or more heads of state attended the inaugural. The pity was the absence of Bill Clinton, the president of Mexico's most important partner and neighbor country.

2. Also, in contrast to the senseless demonstrations noted above, the heads of developing countries generally aspired to live with and take advantage of the globalization taking place in economics, finance, communication, and technology. Most developing country leaders who spoke up during the year wanted to join the world, not stop it. I saved this point for the end because it may be the most hopeful development in international political economy during 2000.