Obama's Real Dilemma: To kill Globalisation or not?

Joergen Oerstroem Moeller06 Nov 2008
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The rhetoric of incoming President Obama combined with the Democratic Party's tendency to lean into protectionism augurs a much more America-first policy. In all likelihood, President Obama will have to retract some of his promises about protecting American jobs and reexamining free trade agreements. But Asia might be in for a nasty surprise when it discovers what kind of protectionism a new administration prodded on by Congress may opt for.

In the 1930s, the world saw how the biggest economic powers succumbed to a strategy of shifting the burden of economic collapse at home to countries abroad. The US and Britain, the two economic superpowers, hiked customs duties. The US enacted the Smoot-Hawley Bill and Britain introduced imperial preferences. These measures proved counterproductive as other countries retaliated, but it took several decades to digest the lesson.

In those days, countries protected local production by shutting the door to foreign imports. Now the temptation will be to protect corporations by shutting the door to the purchase of such corporations, or a minority shareholding in the same.

The age of dissaving in the US has transferred not only purchasing power, but also capital to China and other countries in Asia, and to the oil exporting countries of the Middle East. Everything would look fine if these newly endowed countries would increase their imports by purchasing more goods and services from the US, thereby lifting US exports, generating higher employment and recycling the savings into the real, productive part of the US economy - but they are not doing so. Asia can produce what it needs and does not want to buy from the US. The oil exporting countries have a limited capacity to absorb imports, putting a ceiling on what they want to buy.

From the US perspective, both Asia and the oil exporting countries could behave like good friends and just keep their US dollar assets in cash or bonds without making such a fuss about it.

But why should they do so? For years they have allowed US consumers and the US government to use their savings, waiting for a time when the accumulated cash and bonds could be turned from a sterile asset into something of real value, opening the door for a transfer of technology and management know how.

Now their time has come. The US financial system has collapsed and a string of American corporations can expect lower earnings in view of the recession, which may be longer than most observers think.

Many of these corporations will be desperate to find somebody willing and able to financially assist them over what they rightly consider to be a temporary problem. Fundamentally, these corporations are sound, and are able to generate revenue and profit for the owners, and jobs for their employees. But right now they are caught in the storm unleashed by Wall Street. If somebody else other than Wall Street had created this cataclysm, these same corporations would have cried out for help from Wall Street and this money machine would have come to the rescue. But with the potential rescuer playing the role of the villain, where to go?

There is only one place to find the money: Asia and in particular, China plus the oil exporting countries. It would have been their money anyway, but Wall Street would have worked out a temporary credit arrangement with no prospect for a transfer of ownership. But now, the creditor is asking for his pound of flesh, and it is a shareholding that is demanded, not an offer of a loan facility.

America’s corporations will fall back on these cash-rich countries and they will be ready for America. The purchase price will be lower than expected, and the prize of ownership a reality hitherto only dreamt of. Ownership or influence over a considerable segment of the heart of the American enterprise system is a once in a lifetime opportunity. Asian capital will move from being an outsider to a main player, owning some of the crown jewels of the capitalist economic system.

Mid-September hosted rumours that China Investment Corp would increase its share in Morgan Stanley. And it is not just the US that is a target. In early August, similar rumours suggested that the China Development Bank was interested in buying Dresdner Bank, Germany’s third largest bank.

Some of the capital may come from private investment funds with others from sovereign wealth funds, but it will not change the fact that ownership of American corporations will move into foreign hands and in some cases, into the hands of foreign governments.

Will America be willing to sell its family silver? Highly unlikely, but what then?

The strength and commitment to globalisation will be tested. China and the oil exporting countries have played by the rules for several decades even if they may have questioned whether the road taken was really to their benefit. Now the tide has turned, and globalisation has offered them real benefits. If that is deemed as foul play by the established guardian of the system, the US, because it is in an inferior position today, then there is a genuine risk that globalisation will crack.

The adage that some are more equal than others is a phrase borrowed from political philosophy, but one cannot run a global economic model where the mightiest economic power sees fit to cast aside the rules when these do not suit it any more. For decades, the US has trumpeted the message that the debtor plays to the tune of creditor. This has been the recipe dealt out to countries in difficulties. But today, the US has no choice but to swallow its own medicine.

Sell the family silver to keep globalisation intact or introduce restrictions on the purchase of corporations by foreign entities thereby throwing economic globalisation into chaos? This is the critical dilemma confronting President Obama when he sits down in the Oval Office two months from now.

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