Investment and Trade

Investment is the key to economic growth. Economist describe the savings we put in the bank as "injections" to the economy: by saving, we provide the dollars that banks need to make loans to investors so the investors can in turn buy machinery and other raw materials to in turn create jobs, develop new technologies, and rebuild decaying infrastructure. Since the 1980s, the typical citizen in the United States (US) has been much better at consuming than he or she has been at saving, and the results can be seen all around us: bank failures, high unemployment, failing education systems, and a lot of finger pointing!

Globalization has provided investors with new opportunities for investment. Two options are available to foreign investors: direct foreign investment and portfolio investment. In cases of direct foreign investment, a company like Coca-Cola goes into a foreign country, buys property, and builds a manufacturing plant. Portfolio investment, on the other hand, refers to a situation in which investors put money into a "portfolio" to be loaned out to citizens of that foreign country who in turn build and grow their own businesses. This form of investment is usually managed by a variety of worldwide stock markets. Although most countries would prefer portfolio investment so that they can make their own decisions, most investment comes in the form of foreign direct investment.

Forty years ago, when US companies began worldwide distribution and manufacturing programs, the US government found that it could no longer oppose the largest of corporate entities because these entities could take their corporate headquarters, along with the taxes they would normally pay the US Treasury, and move to other countries more hospitable to their view. When Citibank and Travelers Insurance merged in the late 1990s, they were breaking federal law, which had, since the Great Depression, prohibited banks to invest in speculative instruments (like insurance). Because Citibank and Travelers Insurance could have moved "offshore," Congress had no choice but to rewrite US banking laws or lose millions in potential tax revenues. In May 2011, Qualcomm began the process of merging with AT&T in violation of US anti-trust laws, but rather than fine the companies, the FCC appears to be rewriting its rules to make the merger legal. Note that much of what goes on in the international arena is beyond the control of the US government. Although the US still has the largest economy and the strongest military in the world, its laws go only as far as its borders.

Another time honored capitalist market foundation, free trade, has also seen unexpected side effects that have caused proponents to reevaluate their positions. According to economists, by using the theory of comparative advantage to encourage each nation to produce what it produces most efficiently and trade for whatever it cannot produce, everyone will benefit. However, anyone who has seen the remnants of "free trade zones" in the Caribbean (Jamaica and Aruba) will attest to the fact that what works in theory does not always work in reality.

When the General Agreement on Trade and Tariffs (GATT) became the World Trade Organization (WTO) in 1995, what had been a set of voluntary guidelines became international law with fines for violators. Although the United States (US) promotes free trade, US workers were most frequently seen protesting the WTO at its

worldwide meetings. For decades, the US worker had been protected by tariffs and duties on foreign competitors as well as the US's strong labor laws (child labor, overtime, health care, retirement, vacation pay) and environmental laws (OSHA and EPA), all of which added costs to US products. Although this protectionism lost ground during the globalism of the past couple of decades, it is finding more acceptance today as the US struggles to recover from the Great Recession of 2008.

Human Rights, Poverty, and Foreign Aid

Disparity between rich and poor leads to political instability and unrest. The Democratic Peace theory holds that democratic nations are less likely to have conflicts with other democratic nations, primarily because voters have a voice as to whether they want to send their children to war or not. Informed by these two fundamental beliefs, the United States has dedicated itself to promoting democracy and economic development in the developing world.

The US record on human rights is mixed. The US has backed unpopular leaders (the Shah of Iran, 1941-1979, for example), mired itself in losing battles (consider the Vietnam War, 1950-1975), ignored ethnic cleansing (as was the case in Rwanda, 1994), and given foreign aid to corrupt regimes (as it did to Egypt, 1952-2011). Too often, the United States has had to support the lesser of two evils when it comes to relations with developing nations. And too often, the blowback from these awkward relationships results in resentment from both US citizens and the oppressed citizens of the developing nations (Guatemala, 1950's, and Nicaragua, 1912-1933). However, the US remains the largest contributor of foreign aid, and is currently backing what some refer to as the awakening of the Arab world (Libya, 2011), supporting "the people" even though the outcome is not yet clear. For more information, please go to "Global Issues"

Politics in a Changing World: Growing Dependence on Foreign Oil

As recently as 1960, the United States produced most of its own oil. That arrangement changed in the 1990s. Today, most of the oil that the US consumes comes from Canada or Mexico. More than 50% of US oil comes from the Western Hemisphere. There has been an alarmingly increase in demand for oil in China and India. Oil prices continue to rise as a result. Projections for these fast growing economies and populations show that the demand for oil will only continue to increase. Japan's recent (2011) earthquake and tsunami, followed by nuclear disaster, has further increased the demand for oil because the nuclear alternative now seems less desirable, though just a year earlier, BP's oil spill in the Gulf of Mexico made oil seem like the less promising option. Both of these disasters illustrate the international implications of energy dependence, and not just on oil. Japan chose the nuclear option, but the entire Pacific Rim will pay for the leaking radiation; the US chose oil, and the entire Gulf region will pay for that dependency over the next few daces.

In total, the US imports oil from more than 100 countries. It is difficult to understand how or why the US and Saudi Arabia manage to have such a close relationship when our countries couldn't be any different. But the US and Saudi Arabia have an agreement by which Saudi Arabia will secure oil from all the OPEC nations for

the US, and the US will militarily secure the Saudi monarchy. This is an awkward relationship, but the US needs its oil.

The Environment

In 1970, the US established the Environmental Protection Agency (EPA) and created "Earth Day" in an effort to protect the land, air, and water. However, the environment is a global issue. For the past two decades, the United Nations (UN) has worked to develop international agreements in order to better control the growing problem of environmental pollution. In 1992, the Earth Summit in Rio de Janeiro produced the Biodiversity Treaty, which addressed greenhouse gases, but the US Senate never ratified it. In 1997, the Kyoto Protocol was developed in order to strengthen the Biodiversity Treaty, but the US again refused to ratify it. Although the US has a strong commitment to protecting the environment, the Kyoto Protocol would exempt some developing countries, like China, from the reductions. Since China is predicted to surpass the US in greenhouse gas emissions by 2025, the Kyoto Protocol would have given China an unfair economic advantage. But how can the UN ask developing nations to submit to the higher costs of environmentally friendly production when the US was free to pollute during its own growth as a nation? For more information, please go to the UNSCD's article on "The Environment."