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Militarization in the Age of Globalization

By John Feffer

Weapons, from handguns to fighter jets, are a profitable business. Generous government contracts, huge profit margins, and inevitable cost over-runs ensure spectacular dividends for weapons producers. Conflicts burning throughout the world guarantee plenty of buyers. After a post-cold war decline, global weapons purchases rose in 2000 to $800 billion. In the aftermath of the September 11 tragedies, arms production and sales worldwide will likely continue their upward trajectory—encouraged by national policies and supported by multilateral economic institutions.

Although most military contractors are neither "infant" industries in need of nurturing nor spent giants on the verge of bankruptcy, states continue to subsidize the production of arms. Even the most die-hard *laissez-faire* governments, committed on paper to maintaining a firewall between the state and the economy, are propping up their arms manufacturers. The United States, for instance, provided $1.2 billion in tax relief when Lockheed merged with Martin Marietta to form the world's largest arms manufacturer, Lockheed Martin.

According to the logic of free trade, the cornerstone of globalization, such subsidies are "nontariff barriers to trade." They are, in other words, an unfair advantage enjoyed by a company doing business in the world market. And international financial institutions are committed to removing such advantages.

Military Subsidies Treated Differently

But every trade accord treats military subsidies as different from all other subsidies. This is known as the "national security exception." Included in the original General Agreement on Tariffs and Trade (GATT) in 1947 and every trade accord since, this provision allows states to subsidize production, promote sales, and impose trade embargoes they deem necessary for the maintenance of national security. So, according to free trade rules, if the U.S. subsidizes the production for export of a Boeing 747, other countries can file grievances through the World Trade Organization (WTO). But the U.S. can subsidize the production of a Boeing F-15 fighter jet that is sold overseas, and no country will call foul.

In some cases, this security exception channels money from the civilian to the military sector. The Canadian government subsidized civilian passenger jets produced by Bombardier Aerospace until other countries protested through the WTO. So Canada switched to subsidizing Bombardier's military production. Other countries view military production as the dangling rope that will pull them out of their current economic difficulties. The South African government continues to subsidize Denel, the state-owned weapons producer. As a hedge against Denel's eventual privatization and to boost industrial production, the government created the Industrial Participation Programme to solicit civilian investment from European arms manufacturers that offsets the costs of major weapons systems. In such cases, civil investment is held hostage to arms acquisitions.

Government subsidies often result in cheaper weapons. For arms importing countries, the security exception means more bang for the bucks spent buying weapons abroad—and a heightened risk of regional conflict escalation.

Structural adjustment programs—another key component of globalization—permit a similar security exception to their free market focus. Acting on the advice and pressure of the International Monetary Fund, governments have slashed government budgets and priva-

FOREIGN POLICY IN FOCUS

tized government industries. But defense budgets have largely remained off limits to the dictates of the international financial institutions (IFIs). Although many governments have privatized military production and even military operations, they maintain indirect subsidies (through tax relief or export guarantees) and have arranged continued access to civilian infrastructure for military purposes.

Globalization in the form of increased world trade and neoliberal structural adjustment is in theory designed to increase competition. Companies compete against one another on a global basis to produce the cheapest and most profitable products; governments step back from the economy to allow this competition free rein.

But the logic of the modern military system is quite different. While macro-policy is conflict-driven, U.S. global military dominance at the nuts-and-bolts level is held together by cooperation: building alliances, conducting joint exercises, selling compatible weaponry, and supplying spare parts. The majority of weapons sales are part of global alliances—between the U.S. and Israel, the U.S. and South Korea, and so on. Transnational mergers of defense contractors are building on an earlier trend toward the coproduction of weapons systems.

In the name of national security, governments intervene repeatedly in their economies to enhance the competitive edge of their military producers in the international marketplace. State planned economies have largely disappeared in the post-cold war world, except for the subspecies known as the military-industrial complex. Multilateral economic institutions such as the WTO and IMF have helped sustain an environment in which this far-from-endangered species can flourish. The security exception enables governments to globalize their military production while largely bypassing the fierce competitive forces of globalization.

Pentagon-Wall Street Partnership

The Pentagon and Wall Street are close compatriots, and not simply in the minds of international terrorists. U.S. military power and economic might are the imperial prizefighter's one-two punch.

Arms production and sales lie at the intersection of these two global policies. Through various economic means, the U.S. government exploits the security exception to help U.S. arms manufacturers compete internationally. The Defense Department, for instance, helps other countries buy U.S. weapons (through the Foreign Military Finance program), gives away weapons purchased from domestic suppliers, finances extensive research-and-development, and relentlessly engages in sales promotion overseas. Tax policy, too, has been shaped to help defense contractors. In 1993, the U.S. government lifted a ban on federal reimbursements connected to mergers and acquisitions in the defense field. Boeing reversed its transition away from military production, quickly swallowed McDonnell Douglas and key divisions from Rockwell International, and grew to become the nation's largest arms exporter.

The Export Import Bank, which beefs up the U.S. export sector, is by law not allowed to encourage military sales. But there are exceptions. The most important concerns the drug war. U.S. firms can supply military buyers with practically anything connected to drug interdiction. The Colombian military and Sikorsky Aircraft have been prime beneficiaries of this exception, with the ExIm Bank facilitating the sales of 19 Black Hawk helicopters. Because of the ExIm's somewhat restrictive charter, the U.S. government created the Defense Export Loan Guarantee Fund in 1996 specifically to aid the defense sector. Trained by ExIm staff, this new agency disbursed nearly $8 billion in its first year of operation.

The U.S. government has also devised a way of boosting military and civilian production in an arena the WTO currently doesn't cover: maritime transport. In 1982, the Reagan administration eliminated direct subsidies of the shipbuilding industry. But in the 1990s, the U.S. navy was shrinking and the orders were drying up. In the commercial shipping trade—the circulatory system of globalization—the world ocean-going trade conducted on U.S.-flag ships had fallen to less than one percent. The shipbuilding industry demanded change.

The Clinton administration, in 1996, came up with a way around this ban. It set up the Maritime Security Program (MSP). The U.S. government subsidizes the construction of ships that will be at the service of the Pentagon in times of national crisis. At other times, the ships engage in the more sedate task of hauling goods. This is a win-win proposition for the U.S. government: boosting the U.S. share of the commercial shipping trade and guaranteeing the Pentagon access to more naval capacity.

But that's not all. For the modest investment of $100 million a year, the Pentagon gains access to the entire intermodal system of the ship companies—ports, trucks, and rail tracking systems—for times of emergency. This is VISA, the Voluntary Intermodal Shipping Agreement. The U.S. government argues that subsidizing commercial shipping is critical for national security, so even if maritime transport is liberalized, these subsidies will be exempt from WTO regulations.

Although the WTO has successfully challenged some U.S. subsidies—such as the 2000 decision to strike down the Foreign Sales Corporations (FSC) tax provision that allows U.S. exporters to shield export profits from U.S. taxes—it has been largely ineffectual in challenging the overwhelming advantages the U.S. enjoys in the military marketplace (as the largest weapons producer, exporter, and subsidizer). The security exception grants a general exemption that all countries can exploit. But because of U.S. dominance, the exception also locks in the U.S. position.

U.S. national security also trumps the most dramatic of economic restructuring: IMF structural adjustment. In the case of South Korea, reeling from the Asian financial crisis of 1997, the IMF recommended reductions in military expenditures. The U.S. government overruled the recommendation. The U.S. supplies South Korea with the vast majority of its weapons and considers such sales not only profitable but essential to national security. A similar situation applies to Turkey, a key U.S. ally that has sheltered its military budget, an eye-popping 14% of GDP, from IMF-inspired reductions.

The Pentagon and the Commerce Department, however, do not always see eye to eye. U.S. military policy, looking backward to the cold war era, depends on the maintenance of threats—terrorists, drug traffickers, North Korea, Iraq—that can substitute for the defunct Soviet Union. U.S. economic policy, although forged in the crucible of the cold war, looks forward to an era of the single global market, where ideological disagreements don't interfere with making a profit.

Janus-Faced Globalization

This Janus-faced global policy produces interesting interference patterns. Take the example of the People's Republic of China and the aircraft manufacturer Boeing. China accounts for 10% of Boeing's business. To exploit cheaper labor costs, Boeing has also outsourced manufacturing to China's army enterprises. Economically, China is one of the best friends of the U.S., a major destination of U.S. investments and the producer of a multitude of U.S. imports. With Boeing's vigorous lobbying, the Commerce Department has sought to usher China into the WTO as quickly as possible. But militarily, China remains an enemy, albeit a poorly equipped one, and the Pentagon needs China to justify 100,000 U.S. troops deployed in the Asia-Pacific and a technologically suspect missile defense system. Only a greater threat—the Soviet Union of yesteryear, Osama bin Laden today—can turn China into a military ally.

While the underlying vision of U.S. foreign policy is incoherent, the U.S. government tries to have it both ways: the limitless threats of the cold war and the boundless markets of McWorld. Only by throwing money at the Problem—a $328 billion military budget that includes substantial support for overseas sales and investment—can the U.S. paper over the contradiction.

Challenging the Militarization-Globalization Nexus

The Pentagon, the Commerce Department, and international financial and trade institutions make for a powerful trinity. At a global level, when this unholy trinity supports the spread of arms, the increase of defense budgets, and the dominance of arms manufacturers, the deck is stacked. Yet there are some ways to challenge this nexus of globalization and militarization.

The chief dilemma, a variation on the "inside-outside" conundrum, is whether to challenge these institutions to play by the rules they have developed or to challenge the rules themselves.

Let's consider the first tactic of using the rules to challenge militarization. Because of the criticisms of watchdog organizations and demonstrators in the streets, the IMF is now more willing to argue for reductions in defense budgets, as it has done in South Korea, Peru, and throughout Africa. Activists can challenge the institution to follow its own "best practices." According to this tactic, the IMF's budget-cutting zeal is turned back on itself in order to reduce military expenditures worldwide.

By the same logic, the Bush administration could be pressed to extend to the military sector its well-known aversion to industrial policy (that is, government policies that foster development through support for selected industries). The defense industry enjoys the advantages of corporate welfare through tax loopholes, export assistance, R & D, and various guarantees. Even a *soupcon* of *laissez-faire* would improve this toxic recipe. Moreover, the Defense Export Loan Guarantee program and the drug war exemption in the Export Import Bank charter are innovations of the Clinton administration. Republicans should be encouraged to play the partisan card and trim the Democratic pork in the military sector. Meanwhile, the Bush administration's aggressive diplomacy on behalf of domestic defense contractors could also be targeted as a nontariff barrier to trade.

To persuade the South Korean government to buy F-16 fighter planes, the U.S. announced that it would not help integrate U.S. weapons and cryptographic systems should South Korea opt for the French fighter instead. Here again, activists could charge the Bush administration with blatant interference in the free market.

Activists can similarly press the WTO to begin severing the ties that bind together the military-industrial complex. Although there is little support among WTO members for eliminating the WTO's security exception, WTO members may successfully challenge subsidized military programs whose primary purpose is to enhance civilian production. The various incentives that the U.S. government offers private cargo carriers to purchase Boeing's C-17 Globemaster military transport plane could, for example, be criticized on such grounds. Similarly, if transportation services are liberalized at the WTO level, there could be a successful WTO challenge to the Maritime Security Program in the United States.

The second tactic is to challenge the rules themselves, because the rules are biased in favor of the powerful. One of the more powerful tools to be deployed against the military-industrial complex is transparency. By implementing registers of arms transfers and exposing corrupt deals such as the recent British-Saudi Arabian weapons-for-oil deal, journalists and activists can begin to build new systems of rules that will contain global arms trade in much the way that the Lilliputians used slender filaments to restrain the giant Gulliver. International codes of conduct, like the one proposed by former Costa Rican president Oscar Arias, could introduce minimum standards into a destructively liberalized environment.

Such measures would pave the way for more radical steps. A military Tobin tax, levied on every cross-border military deal, would generate funds for destroying nuclear and other weapons as well as to convert defense industries to civilian production. More subversively, such a tax could throw sand in the cogs of the emerging global military-industrial complex just as economist James Tobin imagined his tax on financial transactions would slow the rapid-fire transfer of capital around the world.

As a result of the September 11 attacks, the dangers of globalized militarism—the deregulation of weapons markets and the privatization of militaries—has become apparent even to the Bush administration. Weapons can end up anywhere; terrorists can raise funds in deregulated financial markets and unregulated black markets; private armies can rival state militaries. State subsidies for military production, protected by the security exception, have only increased the number of weapons available. In this new era, international institutions should permit government subsidies, investments, and taxes that scale down arms production, redirect funds from the military to the civilian sector, and otherwise dismantle the economic motor of globalized militarism. This is the one type of security exception to free trade regulations and budget restrictions that makes sense in a world awash in weapons..

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