



## Globalization & Militarization

By John Feffer

Weapons, from handguns to fighter jets, are a profitable business. Generous government contracts, huge profit margins, and inevitable cost overruns ensure spectacular dividends for weapons producers. Conflicts burning throughout the world guarantee plenty of buyers. After a post-cold war decline, global military spending rose in 2000 to \$800 billion. In the aftermath of the September 11 tragedies, arms production and sales worldwide will likely continue its upward trajectory—encouraged by national policies and protected by international financial 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 weapons production. 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 U.S., for

instance, provided \$1.2 billion in tax relief in 1993 when Lockheed merged with Martin Marietta to form the world’s largest arms manufacturer.

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.

But every trade accord treats military subsidies as different from all other subsidies. A “national security exception,” included in the original 1947 General Agreement on Tariffs and Trade (GATT) and in every trade accord since, allows states to subsidize production, promote sales, and impose any trade embargoes that they deem necessary to maintain national security. So, according to free trade rules, if the U.S. subsidizes the production for export of a passenger jet, other countries can file grievances through the World Trade Organization (WTO). But the U.S. can subsidize the overseas sale of a Boeing F-15 fighter jet, 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 subsidiz-

ing Bombardier’s military production. Other countries view military production as the dangling rope that will pull them out of their current economic difficulties. For example, the national security exception continues to protect the South African government’s subsidy of Denel, the state-owned weapons producer.

Government subsidies often result in cheaper weapons. By favoring arms sales over other forms of trade, the security exception creates more bang for the buck and a heightened risk of regional conflict escalation.

Structural adjustment—another key component of globalization—involves a similar security exception. Acting on the advice and pressure of the International Monetary Fund (IMF), states have slashed government budgets and privatized government industries. But defense budgets have largely remained off limits, despite IMF encouragement for reducing them. 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. 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.

And 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. International financial 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.

### Key Points

- A national security exception protects countries’ subsidies for military production from international trade rules.
- In some cases this security exception channels money from the civilian to the military sector.
- By favoring arms sales over other forms of trade, the security exception fuels armed conflict.

# Problems with Current U.S. Policy

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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. It helps other countries buy U.S. weapons (Foreign Military Finance Program), gives away weapons purchased from domestic suppliers (Excess Defense Articles Program), finances extensive research and development (R & D), and relentlessly engages in sales promotion overseas. Tax policy, too, has been shaped to help defense contractors. In 1993, the U.S. government changed its policy on federal reimbursements connected to mergers and acquisitions in the defense field. In response, Boeing reversed its transition away from military production, quickly swallowed McDonnell Douglas and key divisions from Rockwell International, and grew into the nation's largest arms exporter.

The Export-Import (Ex-Im) Bank, which beefs up the U.S. export sector, is by law not allowed to encourage military sales. But there are two major exceptions. 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 Ex-Im Bank facilitating the sales of 19 Black Hawk helicopters. Second, Ex-Im can help finance the sale of dual-use products, which can serve both civilian and military ends. In recent years, such dual-use sales have gone to Romania, Indonesia, and Turkey, among others.

The U.S. government has applied this dual-use logic in a different way 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 orders for ships were drying up. The role of U.S. flagships in the commercial shipping trade—the circulatory system of globalization—had fallen to less than 1%. The U.S. shipbuilding industry demanded change.

The Clinton administration, in 1996, got around this ban with the Maritime Security Program (MSP). The U.S. government subsidizes the construction of ships that will serve 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 Washington: boosting the U.S. share of the commercial shipping trade and guaranteeing Pentagon access to more naval capacity when needed.

But that's not all. For the modest investment of \$100 million a year, the Pentagon gains access to the entire system of the ship companies—ports, trucks and rail, tracking systems—in times of emergency. This arrangement is called VISA, the Voluntary Intermodal Shipping Agreement. The U.S. 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 WTO members have successfully challenged some U.S. subsidies—as in the 2000 WTO decision to strike down the offshore tax shelters known as Foreign Sales Corporations—they have been largely ineffectual in challenging the overwhelming advantages the U.S. enjoys in the military marketplace as the world's 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 locks in the advantaged U.S. position.

U.S. national security also frequently trumps the most dramatic of economic restructuring: IMF structural adjustment. For South Korea, reeling from the Asian financial crisis of 1997, the IMF recommended reductions in military expenditures. But the U.S. government argued otherwise. Washington supplies Seoul with most of its weapons and considers such sales not only profitable but essential to Korean 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.

Yet, the Pentagon and the Commerce Department 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 role played by 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.

This Janus-faced global policy produces interesting interference patterns. Take the example 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 Washington's best friends, 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 ushered China into the WTO as quickly as possible. But militarily, China remains an enemy, albeit a poorly equipped one, and the Pentagon needs the Chinese threat to justify both the 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 temporarily transform China into a military ally.

Although the underlying vision of U.S. foreign policy is incoherent, Washington tries to have it both ways: the limitless threats of the cold war and the boundless markets of "McWorld." Throwing money at the problem—a \$379 billion military budget that includes substantial support for overseas sales and investment—does little to resolve this central tension between military and economic objectives.

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## Key Problems

- An array of U.S. programs exploits the security exception to help U.S. manufacturers compete internationally.
  - This rule, which theoretically applies equally to all countries, in fact helps lock in U.S. dominance of the global arms market.
  - Washington's military objectives—e.g., to promote China as the next peer enemy—conflict with its economic objectives to globalize trade.
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# Toward a New Foreign Policy

When their strategies converge, the Pentagon, Commerce Department, and international financial 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.

## Key Recommendations

- Policy critics can highlight the disconnect between laissez-faire economics and support for the military industry.
- These critics can prod the IMF to strengthen its stance on limiting military spending.
- Revenues from a military Tobin tax on the arms trade could be used for nuclear and other weapons disposal and the conversion of military industries.

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. In part 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. Policy critics can challenge the institution to follow its own “best practices.”

According to this tactic, the IMF’s budget cutting zeal is channeled to reduce military expenditures worldwide.

By the same logic, the Bush administration can be pressed to extend to the military sector its well-known aversion to industrial policy. The defense industry enjoys the advantages of corporate welfare through tax loopholes, export assistance, R & D subsidies, and various guarantees. Even a soupcon of laissez-faire ideology would improve this toxic recipe. Meanwhile, the Bush administration’s aggressive diplomacy on behalf of domestic defense contractors can also be considered 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, critics can charge the Bush administration with blatant interference in the free market.

Critics can similarly press the WTO to begin severing the ties that interweave the military-industrial complex. Although the WTO’s security exception is a tough nut to crack, countries can indeed 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 or the recent government decision to lease Boeing’s civilian 767s for military purposes at the cost of \$26 billion can be criticized on such grounds. If trans-

portation services are liberalized at the WTO level, the Maritime Security Program will also fall into this category.

The second tactic is to challenge the rules themselves, because the rules are biased in favor of the powerful. One of the more potent tools to be deployed against the military-industrial complex is a demand for transparency. Strengthening requirements for registers of arms transfers and exposing corrupt deals such as the recent British-Saudi Arabian weapons-for-oil deal can begin to build new systems of rules that will contain the global arms trade in much the same 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 and other Nobel Peace laureates, could introduce minimum standards into a destructively liberalized environment (the Arias plan has recently been turned into a framework convention which, if and when it becomes international law, will require states to comply with strict criteria on international arms transfers).

Such measures would pave the way for more radical steps. A military Tobin tax, levied on every cross-border military deal, would generate funds that could be used to destroy 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—have 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 reduce armaments, redirect funds from the military to the civilian sector, prevent weapons from reaching repressive and aggressive states, and otherwise dismantle the economic motor of globalized militarism. This is the only type of security exception to free trade regulations and budget restrictions that makes sense in a world awash in weapons.

*John Feffer <Johnfeffer@aol.com> is the author of Shock Waves: Eastern Europe After the Revolutions, the editor of the forthcoming Living in Hope: Community Challenges to Globalization (Zed, 2002), and has recently returned from three years based in Tokyo working on East Asian issues.*

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### Editorial inquiries and information:

**IRC Editor**  
**Voice:** (505) 388-0208  
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## Organizations

**Arms Trade Resource Center**  
World Policy Institute  
66 Fifth Ave., 9th Floor  
New York, NY 10011  
Voice: (212) 229-5808, ext. 112  
Fax: (212) 229-5579  
Email: berrigaf@newschool.edu  
Website: <http://www.worldpolicy.org/projects/arms/>  
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