



1-1-1988

## Governor's Preface

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### Recommended Citation

George Deukmejian, *Governor's Preface*, 1 *TRANSNAT'L LAW*. viii (1988).  
Available at: <https://scholarlycommons.pacific.edu/globe/vol1/iss1/5>

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## Governor's Preface

In an age when goods, services, and capital transcend national boundaries as if they were nonexistent, it is essential for government and business to be afforded the specialized knowledge of counsel familiar with the laws governing international trade and investment. As the world's sixth largest economy, California has much to gain from and contribute to the development and enhancement of the field of international law and, in recent years, has committed itself to opening avenues of greater cooperation and understanding among the nations of the world.

Journals such as *The Transnational Lawyer* will help to facilitate the development of international law by serving as a forum for attorneys, business people, and government officials throughout the world to exchange information, concepts, and ideas concerning international trade and investment. It is through such mediums of exchange that the nations of the world can garner a greater understanding of each other's customs, values, and laws and thereby enhance their relationships and the welfare of their citizens.

History has demonstrated that free trade is a necessary prerequisite for increased wealth and prosperity for all people. Unfortunately, misguided policies can disrupt the free flow of goods, services, and capital between nations to the detriment of all the world's people. This scenario was painfully realized prior to the great depression, when worldwide economic stagnation and retardation resulted from the closure of international boundaries to foreign participation.

Such pernicious policies were, and are, too often the result of misinformation, a lack of understanding, or a self-serving, naive desire to realize one's own goals at the cost of others. We cannot afford to make such mistakes again. The economies of the world's nations are at a stage of interdependence never before known, and it is incumbent upon all nations to pursue enhanced relations with

their neighbors through increased understanding and communication. This is essential if all nations are to prosper and live in peaceful co-existence.

The success of international cooperation is no better illustrated than in the course of events following the Second World War. A world demolished by the ravages of war was resurrected by a massive international effort of economic cooperation. The result was nothing less than an economic miracle. Private enterprise and individual initiative, nurtured in an atmosphere of openness and cooperation, unleashed the creative energies of people throughout the free world and built a more prosperous world than ever before known.

Circumstances today pose an even more convincing case for ensuring a free international economy. Although currently only about ten percent of the U.S. GNP is accounted for by imports and exports, the ramifications of international financial exchanges on our economy run far deeper and are much more complex than this figure reveals or than ever before realized.

The U.S. has become significantly intertwined in the international flow of capital. Whether it is capital flowing out of the U.S. to Third World nations or capital flowing into the U.S. from other industrialized nations, we must recognize the pervasive ramifications of such transactions.

While we have been experiencing a balance of payments deficit for the past several years and it is recognized this can not be sustained, there are benefits accruing from this situation. Much foreign capital has been put to good use in the U.S. by maintaining and increasing industrial investment. This has helped to create over 14 million new jobs in the U.S. over the past seven years—over two million in California alone. And, contrary to the assertions of many pundits, the majority of these jobs are well paying—jobs that the U.S. Department of Commerce classifies in their moderate to upper income categories. Such job creation has been occurring in the U.S. while job growth in many nations experiencing balance of payment surpluses, like Germany, has been stagnant.

The U.S. also enjoys the fruits of its multinational corporations, whose foreign subsidiaries had nearly a trillion dollars worth of sales abroad last year—a figure equaling approximately twenty-five percent of our entire GNP. While these figures do not show up in our trade statistics, they do show up in increased wealth and prosperity for all Americans.

These are but a few examples of the many complex ways that international trade and investment effect our economy and influence

our lives. It is clear that the U.S., along with the rest of the world, has long benefited from an open, free international economy. It is obvious that we are committed to and dependent upon a free international economy to perpetuate economic growth and sustain our high standard of living. Just because the terms and forms of the benefits of a free international economy have changed, we should not turn our back on a system that has served us so well. Here in California we have taken significant steps to promote and encourage the free flow of goods and services.

I have met personally with a number of world leaders to urge their support for trade liberalization initiatives. Today, the entire world is watching as representatives from more than 90 countries attempt to negotiate a set of rules that will effectively govern international trade for decades to come. We are pushing for greater protection of intellectual property rights, such as patents, copyrights, and computer software. Recent estimates suggest that commercial piracy costs U.S. firms \$43 billion annually.

Talks now underway in Geneva are also addressing trade in services, an issue that directly affects California's legal profession. For instance, until recently U.S. lawyers were not allowed to open law offices or to form associations with existing Japanese law firms to advise local clients on U.S. or international law. This restriction held far reaching implications not only for American lawyers but for the entire bilateral flow of goods and services. American attorneys in Japan will assist U.S. enterprises and increase U.S. exports by facilitating operations of American business in Japan. While we have made progress in this area, we still have a significant way to go before the free flow of services between nations is realized.

California is also working to overturn many domestic obstacles to foreign trade and investment. We recently reformed our unitary method of taxing foreign multinationals conducting business in California. This has resulted in fairer, more equitable treatment for foreign corporations and demonstrates our resolve and good faith. Our efforts have indicated to foreign corporations that we welcome their presence and that we are committed to providing them with an atmosphere conducive to profitable enterprise.

On the national level, I have personally urged congressional leaders to pass responsible trade legislation, not pernicious import bashing that is ultimately beneficial to no one. The President needs to have the authority and capability to deal with our trading partners in a responsible and effective manner. We cannot let the tide of protec-

tionism wash away the progress achieved during several decades of cooperation.

If we are to realize the potential benefits of these efforts that lend themselves to developing a truly free international economy, the United States must be ready to successfully meet the challenges that lie ahead. Our quest for excellence must start in the classroom. A quality education provides the very basis for technological advance, improvements in communication and transportation, increased productivity, continued innovation, and, ultimately, a better standard of living for all Americans.

Our task is to equip each student with the skills needed to meet the challenges of a fast-changing and fiercely competitive world economy. Several decades ago, a worker in California may have had to compete with a wage earner as far away as South Carolina. Today, the competition is coming from South Korea and South America as well.

Unfortunately, many of our students have an insufficient knowledge of foreign languages and cultures, world geography, and international commerce. Just fifteen percent of American high school students ever try to learn a foreign language. By contrast, all Japanese high school students have to study at least six years of the English language before graduating. One-fifth of our high school seniors cannot locate China on a world map, and most California students graduate from high school with less than three weeks study of nations in the Pacific Basin, where the center of world commerce is shifting.

Our failure to communicate with and understand people across national boundaries is one reason that U.S. industries, world leaders in research and development, have been less effective in manufacturing and marketing than they could be. Our people must be able to understand and effectively communicate with people of foreign lands if we are to successfully participate and compete in a global economy that knows no national boundaries. Americans are only now beginning to recognize that the best jobs, the largest markets, and the greatest profits belong to those who understand the nation in which they are doing business. In this day and age, international literacy is a skill as basic as reading, writing, and arithmetic.

Throughout the free world, people, products, investment, and ideas are moving across national boundaries with breathtaking speed. In order to succeed in this exciting new era, we need men and women who are trained in research, product development, management, and organization. But just as important, these skills must be comple-

mented with a knowledge of geography, foreign languages, international affairs, and international law. These fundamental, yet often overlooked, disciplines are indispensable prerequisites for successfully engaging an interdependent world.

As responsible people entrusted with the welfare of our nation, we must work together to learn more about the world in which we live and to promote more balanced worldwide economic growth. Paramount to this goal is the task of strengthening the rules and laws that govern international relations and international trade. Although this requires the concerted efforts of people of all nations, it is the role of professionals schooled in international law to shed light on and bring order to the laws that guide international relations so our goals of increased cooperation and prosperity can be achieved.

George Deukmejian  
Governor of California

