



Prospects for Success in the Global Marketplace

Murray Weidenbaum

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Center for the Study of American Business
Washington University in St. Louis

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This booklet is one in a series designed to enhance understanding of the private enterprise system and the key forces affecting it. The series provides a forum for considering vital current issues in public policy and for communicating these views to a wide audience in the business, government, and academic communities.

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Murray Weidenbaum

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Earlier, Dr. Weidenbaum was the first assistant secretary of the treasury for economic policy. He also served as fiscal economist in the U.S. Bureau of the Budget and as corporate economist at The Boeing Company. He is a member of the boards of directors of the May Department Stores Company, Harbour Group, Tesoro Petroleum Corporation, Center for Strategic and International Studies, and Annapolis Center for Environmental Quality.

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Dr. Weidenbaum is known for his research on economic policy, taxes, government spending, and regulation. He is the author of eight books, the latest being *The Bamboo Network: How Expatriate Chinese Entrepreneurs Are Creating a New Economic Superpower in Asia* (1996). *His Small Wars, Big Defense: Paying for the Military After the Cold War* was judged by the Association of American Publishers to be the outstanding economics book of 1992. He has written several hundred articles in publications ranging from the *American Economic Review* to the *Wall Street Journal*. He is a Fellow of the National Association of Business Economists, Honorary Fellow of the Association for Technical Communications, and a past president of the Midwest Economics Association.

Introduction

Because business competes in an increasingly global economy, Americans need a better understanding of the rapid and fundamental changes taking place overseas. This report is geared to meeting that need.

Private companies are now the major actors on the world stage, and the global marketplace is a key driver of the U.S. economy. With the end of the Cold War, we have witnessed the shift from superpowers to supermarkets. The initiative today comes more from companies than from capitals. In effect, the new Commanding Generals are companies such as General Electric, General Motors, General Mills, and General Dynamics.

Government has become the supporting player, no longer making all of the key economic decisions in the global economy. Thus, when the United States limits work permits for foreign computer programmers, some companies just shift the work overseas. When Japan raised the postage rate from 6 cents to 72 cents, direct mailers sent their mailings in bulk to Hong Kong, which only charged 27 cents to mail a letter back to Japan. Clearly, government can still mess things up—but increasingly the private sector has the ability to respond, albeit at some cost.

But let us take a step back and examine the key assumptions that underlie any long-term analysis, foreign or domestic. Shown below is the general economic scenario that I am using for the first decade of the 21st century. In effect, the following is an attempt to describe what the world of the future will look like:

1. *Continuing friction among nations, but no major war, hot or cold.*
2. *Serious financial problems amidst general economic growth—but neither a 1930s-style depression nor rip-roaring inflation.* Policymakers, especially the Federal Reserve System, have learned a great deal since the 1930s. Of course, there are no guarantees.
3. *However, no shortage of trouble spots at home or abroad.* Potentially, these cover a wide terrain. China and Japan, for example, are two wild cards in forecasting the future of East Asia. In the Middle East, terrorist disruption of the Saudi oil supply is perhaps the worst possibility that can be imagined.
4. *At home, we may be in the early stage of a fundamental shift in the labor-management field.* The unions have been

winning many of the recent battles in terms of gaining public support in labor-management disputes. The most dramatic example is the Teamsters—a union torn by discord and corruption—which overwhelmed the highly regarded United Parcel Service.

Key Trends in the Global Economy

Taking a broad look at the global marketplace, it seems clear that technology and economics are now the driving forces. Effective and low-cost telecommunications is often the pacing element. The cost of a 3-minute phone call from New York City to London dropped from \$245 in 1920 to \$9 in 1950 to 78 cents in 1999. Also during the period 1950–99, the cost of air travel fell from 68 cents a passenger mile to 12 cents. The importance of distance in the world economy has been reduced sharply. The ramifications of this development are only beginning to become evident. For example, inefficient producers are especially hard hit because they are no longer protected by national boundaries.

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Economic development is being driven by technology-related dynamic forces—faster information flows and worldwide financial markets. Already, approximately \$1 trillion moves across borders hourly. Globalization is no longer a buzzword: international trade is growing twice as fast as world production and overseas investment is increasing at least twice as fast as trade. The economic incentives for global operations are substantial. In the case of U.S. manufacturing firms, sales by companies with foreign activities grow twice as rapidly as those of strictly domestic firms. Their profits are also higher. Of course, so is uncertainty.

Proof of the global marketplace can be found in the shipping label of a U.S. electronics producer: “Made in one or more of the following countries: Korea, Hong Kong, Malaysia, Singapore, Taiwan, Mauritius, Thailand, Indonesia, the Philippines. The exact country of origin is unknown.”

Table 1

**Megacities are Changing the Face of the Globe
(10 Million or More in Year 2000)**

Western Hemisphere	Europe	Africa	Asia
Rio de Janeiro <u>New York</u> <u>Los Angeles</u> Mexico City Sao Paulo Buenos Aires	<u>London</u>	Cairo Lagos	Seoul Bombay Shanghai Calcutta Beijing <u>Tokyo</u> <u>Osaka</u> Manila Delhi Karachi Dhaka Tianjin

Note: “Western” or modern cities are underlined.

The complexities of the global economy are great. Competitors in one market may supply each other in different markets. Moreover, they may join forces in yet other circumstances via strategic alliances, joint ventures, technology agreements, and outsourcing.

Economic geography is being altered in a fundamental way by demographic trends. An important and related change is the rise of new megacities, urban centers with 10 million or more people. By the year 2000, there will be 21 megacities, including 12 in Asia, four in Latin America, and two in Africa. Only five will be in the West or categorized as “modern,” notably New York, Los Angeles, London, Tokyo, and Osaka (see Table 1). The notion of developing nations being mainly rural is passé. Population is moving to and creating those new megacities.

When we look beyond short-term fluctuations in economic conditions in the various nations, we find that the major regions of the globe can be grouped into three basic categories (see Table 2). The rapidly-growing economies of Asia, Latin America, and Eastern Europe are likely to achieve, in the longer-term, substantially larger shares of global economic activity than has been their experience in recent years. As parts of China, India, and Southeast Asia, for

Table 2

Important Global Power Shifts

Fast-Growing Nations	Moderately Growing Nations	Slow-Growing Nations
Asia Latin America Eastern Europe	U S A Canada	Western Europe Japan Africa
Entering modern economy	Agriculture	Undergoing difficult institutional changes
Rise of middle-class consumers	Special strengths in technology, services	Special strengths in finance, manufacturing
Competitors, suppliers, and customers	Pacesetters of modern economies	Africa facing serious economic and health challenges

example, begin to enter the modern economy, we see the rise of new categories of middle-class producers *and* consumers. These nations are likely to be our competitors, suppliers, or customers—perhaps all three.

At the other end of the spectrum are the slower-growing economies of Western Europe and the now stagnant economy of Japan. Given their aging populations, it is hard to see them regaining their rapid growth status of earlier years. Both areas are undergoing difficult institutional changes—Europe to a unified monetary policy and Japan to a more competitive financial system. Ironically, perhaps, both Western Europe and Japan are our closest allies and are linked by similarities of socioeconomic conditions and cultural outlooks. In contrast, Africa is a land of low economic performance, facing an array of difficulties. These range from pervasive poverty to fragmentary governmental institutions to disease epidemics.

In the middle are the moderately growing nations of North America, notably the United States and Canada. Our agriculture is

Table 3

Top Exporters to Emerging Markets

United States	Japan	Germany
Latin America South Korea Pakistan India Middle East	East Asia Panama	Eastern Europe South Africa

Conclusion: World trade is still mainly regional.

the breadbasket of the world, and both nations have special strengths in technology and services. We are surely the pacesetters of modern economies and especially the place where people want to migrate and to send their children to college.

Another way of looking at the international economy is to examine the relationships between the industrialized nations and the emerging countries. Here, too, it can be seen that the patterns of world commerce are still mainly regional (see Table 3). Thus, with the fewest of exceptions, the United States is the major supplier of goods and services to Latin America, Japan to East Asia, and Germany to Eastern Europe.

The lure of developing markets to the business interests in the advanced economies can be seen by examining the geographic distribution of an important consumer product—television sets—in relation to population. In 1996, there were about 900 million television sets in the world. Slightly more than one-half of them were located in developing countries such as China and India and the rest were in economically advanced nations such as the United States, the United Kingdom, and Japan. However, the markets in the major industrialized nations were relatively saturated, especially in terms of number of sets per family. In striking contrast, the long-term potential of China—with 400 million sets for 1.25 billion people—has barely been scratched. The same can be said for India, with only 60 million TVs for a population of about 900 million. Clearly, key growth markets are often overseas.

Market potential overseas may at times be illusory. However, analysts of the global economy generally agree that six factors make for success in the international marketplace:

1. *An economy that is open to foreign trade and investment.* This clearly is not the path of economic isolationism.
2. *A government that minimizes controls over business but does better at supervising financial institutions.* Restraint in regulating is helpful, but total absence of government involvement is not.
3. *A judicial system that works well and contributes to an atmosphere conducive to less corruption.* This is a crucial role for government and one that is not present in much of East Asia.
4. *Greater transparency and availability of economic information.* This spurs effective business decision making. It is the opposite of the “buddy” system so popular in much of Asia.
5. *High labor mobility.* There is an associated paradox: individual jobs are not secure, but overall unemployment is very low.
6. *Ease of entry by new businesses.* Competition protects the consumer and limits business complacency.

In a nutshell, competition is the key to national economic success around the world. Of the top 20 U.S. companies in 1998 (ranked by market value of their stock), half were not on the list in 1987. Only one-fourth were on the list in 1967. The motivating idea is not to protect individual companies, but to promote the competitive private enterprise system.

Globalization and the United States

There are strong links between overseas trends and domestic developments. Specifically, globalization often drives domestic policy in the United States. For example, the desire to enhance national competitiveness has created pressures for tax reform. It is not a coincidence that each of the major current proposals—the flat tax, the national sales tax, and the savings-exempt USA tax—tends to favor the key economic ingredients for greater international competitiveness, saving and investment.

Keeping up with the world economy is also a strong reason for the desire to “reinvent” government here at home and privatize inefficient nationalized industries overseas. Moreover, the continuing interest in deregulation and regulatory reform is also enhanced by comparisons with production costs abroad and the desire to

improve America's role in the global marketplace. In this era where high technology is often the strategic factor in international business, a new emphasis on business-focused research and development is evident. This is in striking contrast to the more traditional government-sponsored R&D of previous years.

To an extent not fully appreciated by the public, many well-known U.S. firms already depend on overseas markets for the largest part of their revenues. Companies that generate two-thirds or more of their sales abroad include Exxon, Colgate-Palmolive, Manpower, Mobil, and Coca-Cola. Many more report foreign sales as over 50 percent of the total—Avon, Gillette, IBM, Citicorp, Intel, Xerox, McDonald's, Dow, Hewlett-Packard, Texas Instruments, Kodak, 3M, Texaco, Ralston Purina, and Procter & Gamble.

A similar array of companies report that more than half of the profits arise from overseas business. Perhaps most important, a listing nearly as big of large U.S.-based corporations has more than half of their assets in foreign countries (see Table 4).

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There is a little-appreciated but positive relationship between the burden of domestic regulation and the extent of overseas investment by American companies. For example, U.S. medical device companies are setting up shop in the Netherlands. The enticement is neither low cost of operation nor lack of regulation. Rather, the Dutch have a reputation for a regulatory system that is more sensible and efficient than the one our Food and Drug Administration oversees.

U.S. oil companies explore in faraway—and rather risky—Kazakhstan and China's Tarim Basin simply because so much of the continental United States and Alaska is off limits to exploration. Also, U.S. mining companies drill in Bolivia, due in good measure to a less burdensome rule-making regime. All in all, an estimated 20 percent of the production of domestic companies now takes place outside of the country.

Table 4

U.S. Companies With More Than Half of Assets Overseas

AFLAC	86.9%	Avon Products	58.3%
Manpower	74.4	Hewlett-Packard	57.5
Mobil	66.9	Exxon	56.8
Crown Cork & Seal	65.7	McDonald's	54.7
Pharmacia & Upjohn	65.1	Seagate Technology	54.6
Citicorp	62.7	Sara Lee	52.7
Bestfoods	61.8	Digital Equipment	52.0
Gillette	61.5	Bankers Trust New York	51.9
NCR	59.7	AMP	51.6
Dow Chemical	59.5	Xerox	51.0
American Standard	59.3	Halliburton	50.5
Colgate-Palmolive	59.1		

With this background, let us take up some of the key policy issues that are likely to arise in the United States. As we will see, virtually all of them contain important international aspects.

In the area of government regulation of business, progress in reforming the burdensome and tedious process of regulation is likely to be more than offset by expansions in the scope of government intervention in the economy. Specifically, the outcome of the global warming debate now heating up may well be greater federal involvement in business. It likely would be in the form of an effort to reduce the emission of carbon dioxide by discouraging the use of fossil fuels. But the problem is hardly a domestic one. By its very nature, the global warming issue is international in scope. Some of the most contentious aspects involve the very limited willingness of the developing nations to restrict their CO₂ emissions. Thus, restraints on industrial production by our government might well be offset by laxity in faster-growing developing economies.

In the area of antitrust policy, a shift to a more activist approach is now under way. Until recently, the antitrust front was relatively quiet, in part due to the realization that the relevant market in which firms compete is increasingly global. Viewed in this broader light, the market shares of individual American firms are rarely overwhelming. In the past year, however, the federal government has effectively prevented major mergers in such different industries as office supplies and defense production. The Microsoft case is the most current example of the new Justice Department activism.

Monetary policy is another key area of domestic policy with strong international dimensions. The Federal Reserve keeps a weather eye on overseas financial developments. Often its actions are responses to specific crises abroad. The strength of the dollar has become both a financial and trade issue.

Turning to budget policy, the shift from deficits to surpluses is likely to endure into the early 21st century—except for periods of recession. The prospect of continuing budget surpluses gives the federal government new leeway in dealing with emerging issues, international as well as domestic. Financially, the largest impending demand on the budget is to refinance the social security system. If there is any solace in this regard, it arises from the knowledge that virtually every other industrialized nation is going to face a similar problem of financing the retirement of a rapidly aging population.

*The economic manifestation of isolationism—
“protectionism”—is ultimately self-defeating. Adopting a
more insular approach...results in a loss of
competitiveness and ultimately of world markets.*

As for public policy dealing with international commerce, isolationist sentiment in the United States is substantial even though the effects are negative in many ways. The economic manifestation of isolationism—“protectionism” and other efforts to isolate the American economy—is ultimately self-defeating. Adopting a more insular approach, which means less direct competition facing American companies here at home, results in a loss of competitiveness and ultimately of world markets. Consumers suffer as their living standards decline.

China provides the clearest example of the high cost of isolationism and protectionism. Viewed in a broad perspective over the last 2,000 years, China has been the leading nation of the world. That country was the first to invent gunpowder, the magnetic compass, clocks, the wheelbarrow, paper, movable type, the rear rudder, and cast iron. About 500 years ago, when China was the most advanced and powerful country, a sudden change occurred. The emperor cut off “foreign influences.” China quickly became a poor backwater of the globe. It is still suffering today.

Table 5

U.S. Firms Rank No. 1

Aerospace	Entertainment	Photographic and
Airlines	General Merchandise	Scientific Equipment
Beverages	Motor Vehicles	Semiconductors
Chemicals	Office Equipment	Soap and cosmetics
Computer Services	Paper Products	Tobacco
Electrical Products	Pharmaceuticals	

In striking contrast, the United States is on a roll (see Table 5). In 16 major industries—ranging from aerospace (Boeing) and airlines (American) to soap (Procter & Gamble) and tobacco (Philip Morris)—U.S. firms rank No. 1 in sales. Of course, this is a dynamic situation. The completion of the Exxon-Mobil merger will add the petroleum industry to the list. Another way of looking at rankings of fundamental competitiveness is to examine the list of the most admired companies in the world. U.S. companies constitute nine of the top 10; the only exception is Japan’s Sony.

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In 16 major industries, U.S. firms rank No. 1 in sales.*

Technology is the bright hope for American competitiveness in the 21st century. Efficiency, quality control, and cost are important factors. Nevertheless, it is the unique ability of American firms to innovate on the basis of technological progress that gives our companies a special edge.

Here, the prospects for the United States are buoyed by a silent, strategic crossover that occurred in the early 1980s. For the first time since World War II, company-sponsored research and development began to exceed government-financed R&D. Since then, the gap in favor of the private sector has been widening steadily. By 1998, the private sector accounted for 70 percent of national financing of R&D and the public sector only 30 percent. The results are positive in many ways, such as the rapid rise of Silicon Valley and other civilian-oriented R&D firms. High-tech exports now handily exceed high-tech imports.

Although we cannot pinpoint the precise future results of the massive private investment in new technology, it is most likely that an unparalleled array of new products and improved production processes will be brought to market by American firms in the opening decades of the 21st century. Candidates for important application in that time period include such new technologies as holography (replicating 3-D images), genomics (creating new vaccines), bionics (implanting hearing aids), and biotechnology (reversing environmental contamination).

Conclusions

Stepping away from the details, it is useful to sum up the overall strengths and weaknesses of the American business system in the world economy. Six key pluses are evident, some unique to this country:

1. *A strong entrepreneurial spirit.* It is not surprising that companies in other nations have been selecting senior executives from American business because of their willingness to take risks and to try new approaches if standard practices do not work.
2. *The presence of a “small cap” stock market available to small- and medium-size firms (related to point 1).* The United States is unique in providing this attractive way of financing new enterprises.
3. *Rapidly advancing technology.* This has been the case especially since the early 1980s when the volume of business-sponsored research and development began to exceed the total of government-financed R&D.
4. *Comparatively low taxes.* Americans love to gripe about taxes (and for good reason). However, tax burdens in most other industrialized nations are higher. The low tax burden provides greater incentive to produce and frees up a substantial amount of purchasing power.
5. *A low rate of unionization, compared both to earlier periods of American history and the current experience of other industrialized nations.* This provides a high degree of labor market flexibility, an important spur to productivity and competitiveness.
6. *A world-class higher education system.* Leaders of other nations are not sending their young people to Beijing

University or Tokyo University. When they graduate, they are increasingly attuned to American values, culture, and language.

Nevertheless, weaknesses in our national profile are also evident. The following six are frequently cited:

1. *Regulation is expanding.* This is especially the case in dealing with the environment.
2. A *growing “underclass.”* The number of people who have virtually dropped out of the modern economy (what sociologists call the “underclass”) is large and expanding.
3. *Our weak public school system (closely related to point 2).* This is an ironic contrast to the world-class university system of the United States. A dropout rate of about 50 percent in the high schools of our central cities is an unfavorable indicator of the future.
4. *A labor force that largely lacks the skills and training to meet the requirements of an increasingly high-tech economy.* This reduces the competitiveness of American business and labor in important aspects.
5. *Rising protectionist sentiment.* The dangerous pressures to restrict imports that compete with domestic production is especially ironic at a time when economic activity is increasing on a worldwide basis. This negative response also reflects the unevenness of the public’s knowledge. People see rising imports and notices of layoffs. They are not aware of the benefits of exports and international competition that have contributed so substantially to the nation’s prosperity.
6. *Growing public alienation from large institutions, public and private.* In an attitude of “a plague on both your houses,” much of the public is disenchanted with big government as well as big business.

On balance, it is quite accurate to describe the American economy as surely the world’s strongest, albeit with serious weak spots. Some subjective factors help to yield an upbeat overall assessment: people risk their lives to come to the United States; American English is the Latin of our time, the almost universal language of business, science, and transportation. In a broader sense—that transcends current issues of economics and business—American culture, warts and all, is the pacesetter for a great portion of the world’s population.

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