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Threats and Opportunities in the International Economy

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Mark Jenson

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Threats and Opportunities in the International Economy

by Murray Weidenbaum and Mark Jensen



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

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This booklet is one in a series designed to enhance the 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. Publications include papers and speeches, conference proceedings, and other research results of the Center for the Study of American Business.

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Introduction

The global village that visionary writers such as Marshall McLuhan forecast may not be here, but the global marketplace surely is. Two basic statistical indicators can be cited. The first is that approximately one-half of all imports and exports are transacted between companies and their foreign affiliates or parents. In the case of U.S. and European firms, the ratio varies from one-third to one-half. Almost three-fourths of Japan's total foreign trade is intercompany.¹ From the viewpoint of political geography these are international transactions. But from an economic and technological viewpoint, the flows of goods and services are internal transfers within the same organization.

A second way of looking at the global marketplace is to consider that about one-half of the products manufactured in the United States have one or more foreign components. That also leads to difficult questions. Is Honda USA part of the Japanese business system? Is IBM in Japan an American company?

What makes the international economy so fascinating is the rapid rate of change. The forces of technology and economics are outpacing both current management thinking and traditional politics. The standard geopolitical map and the emerging technical/economic map are out of synchronization. In a way, this paper tries to bridge that gap. The events in Eastern and Western Europe -- both expected and unexpected -- reenforce the need to rethink conventional business and government approaches. If there is any lesson from the past, it is the knowledge that in change there is both threat and opportunity.

The good news is that the United States will surely be one of the three dominant economic powers far into the twenty-first century. The bad news is that this nation will have two tough competitors. One is the reinvigorated European Community (EC), where change is taking place on an unprecedented scale. The other is Japan and the Asian-rim countries adjacent to it whose economies are expanding more rapidly than are market opportunities for foreigners. The Soviet Union -- still very much a military and political su-

Murray Weidenbaum is director of the Center for the Study of American Business at Washington University in St. Louis. Mark Jensen is the John M. Olin Fellow at the Center. An earlier version of this study was printed in *Business in a Contemporary World*, published by Bentley College. Reprinted with permission of the editors.

perpower -- is conspicuously absent from this list of economic superpowers. One comparison is sufficiently telling: according to the Soviet Academy of Sciences, the USSR computer capacity equals that of Thailand -- less than one-thousandth of that of the United States.²

The global marketplace is developing in an atmosphere of substantially reduced military and political tensions. The result is a smaller share of the spending pie going to defense in the United States in recent years. A similar shift in priorities is now beginning in the Soviet Union. Despite the difficult adjustments that will be faced by individual enterprises, their employees, and their communities, in the aggregate these are positive developments. They encourage people in each nation to look beyond their borders for new business potential.

On the positive side, a rapid expansion of world markets is occurring. In 1988, the volume of world trade increased by more than 8 percent. Far more important for the future is that in 1989 the nations of Eastern Europe began to abandon the closed communist economic system for the far more open Western trading community. Within Western Europe, trade and regulatory barriers are being dismantled among the twelve nations now members of the European Community as they move to an integrated economy by the end of 1992.

The European Community

The developments in Western Europe will have profound, long-term effects on business productivity and international competitiveness. In effect, the EC is adopting the economic version of the American "driver's license rule." The results will be similar to that of our driver's license system where each state honors the license issued by the other states no matter how great the variation in the rules of qualification. Thus the European Community is moving to a situation where what is permissible in one member nation is permitted in each of the others.³

The EC is reducing a host of restrictions on business, trade, and labor. People as well as goods and investments, will be able to move readily from any one of the twelve Common Market nations to another. This will tend to make their industries more efficient as they achieve greater economies of scale and are subject more fully to competition from companies in the other EC countries. Not all of the developments overseas, however, will be positive in terms of their impacts on companies in the United States.

Negative Factors About EC '92

Freedoms that will contribute to the integrated market of Europe may not be extended fully to American firms doing business in the EC, in part because of restrictions imposed by our own regulatory authorities. An example is "mutual recognition," meaning that each member of the EC recognizes the laws of the other members. Under this concept, European banks whose home nation permits underwriting and dealing in securities (i.e., investment banking) can provide that service in other member nations, even those that prevent their own banks from doing so. As European banks begin to provide such services beyond the borders of their home countries, the more restrictive regulations of other member nations are likely to loosen.

*The biggest negative for U.S. firms is that
the trade wall around the EC is not coming down.*

This regulatory convergence, however, could prove to be a competitive stumbling block for many of the American banks in Europe. In the case of foreign subsidiaries of U.S. banks, our own Federal Reserve System prevents them from offering nonfinancial services "that could present undue financial risk or otherwise potentially harm the safety and soundness of the banking institution." As the Europe of the 1990s develops, the legal ability of large European banks to own nonfinancial companies and to provide more services than American banks could substantially reduce the competitiveness of U.S. financial institutions operating in Europe.⁴

The biggest negative is that the trade wall around the EC is not coming down. If anything, a more inward-looking Community is toughening its barriers to external commerce. The 1985 White Paper, which outlines the basic approach to the economic integration of the European Community, contains only a single sentence relating to the effects on relations with non-EC countries:

In addition, the Community's trading identity must be strengthened, so that other trading partners will not be offered the benefits from the enlarged Community market without themselves being forced to make concessions.⁵

The French Government, for example, has announced new regulations on TV programming (an important service export for the United States and one of the relatively few favorable items in our

balance of trade). In the guise of promoting EC-wide TV programming, the French are limiting non-EC programming to 40 percent of total air time.⁶

There is also the threat of new EC policies which would accelerate mergers between European corporations. The prospect of creating very large corporations is scaring smaller firms in the Community and may inhibit the rate of entry by medium-sized American firms into the European market. During 1989, a record 1,275 cross-border mergers and acquisitions occurred in the EC. For Western Europe as a whole, the volume of cross-border mergers and acquisitions in 1989 totaled 45 billion ECUs (European Currency Units), equivalent to \$55 billion. This included the joining of Daimler-Benz and Messerschmitt-Bolkow-Blohm to form the EC's largest industrial combine.⁷

A common fear among European business executives is that the larger, better capitalized U.S. firms will do better than they in selling to diverse continent-wide markets.

Moreover, the European Community's external trade barriers are being strengthened by means of "domestic content" and "reciprocity" restrictions on imports. Ironically, those are precisely the restraints that Congress rejected in the late 1980s, in part because of the pleas of the EC that such measures were unfair and would provoke retaliation. Although our European friends assure us that these restrictive measures are aimed at the Japanese, we cannot be sure that their aim is that good. The same restrictions that keep out Japanese and other Asian-produced goods could also adversely affect U.S. exporters. At present, over half of the foreign trade of the twelve EC nations stays within the EC.⁸ Moreover, if the access of the Asian-rim countries to European markets is limited, their major alternative will be North America.

Challenges for American Companies

Looking at Western Europe and out towards the completion of EC '92, there will be both winners and losers among American companies. Many strong U.S. firms with an established presence in any one of the twelve member nations will do well. In fact, European businesses are afraid of competition now that their national markets will no longer be protected from outsiders. A common fear among European business executives is that the larger, better capitalized, higher tech U.S. firms will do better than they in selling to diverse continent-wide markets, where American companies have more ex-

perience. In fact, there is widespread feeling that American firms already established in Europe are ahead of European companies in treating the EC as a single market. Examples frequently cited include General Motors, Ford, IBM, Digital Equipment and Unisys.

That concern is underscored by the rapid increase in U.S. direct investment in Europe. Investments have grown by 30 percent over the past two years, to a current total of \$130 billion. Major examples of this direct investment are the efforts by Citicorp and AT&T. To strengthen its presence in Europe's capital market, Citicorp has purchased the distressed Banco de Leveante in Spain, Banca Centro Sud in Italy, Banque Sud Belge in Belgium and the West German bank KKB. This enhanced presence in Western Europe may also provide Citicorp with the opportunity to finance some of the Eastern European economies.

AT&T recently beat out 20 other international telecommunication companies in acquiring the U.K. company Istel Ltd. With the acquisition of this global message service, AT&T has announced plans for expanding its electronic message switching services throughout Europe and into Asia. AT&T has also created a European alliance with the Italian telephone maker Italtel. This joint venture will help AT&T to meet the EC's domestic-content requirements and thus permit its products to be sold in EC countries.⁹

It is sad to note, however, that a recent survey of American companies revealed that only 30 percent had established a strategic plan for a unified Europe. Less than half had even heard about EC '92.¹⁰ For those U.S. firms who will be on the outside trying to look in, the results will not be very sanguine. They will encounter a variety of external barriers surrounding the European Community.

Beyond 1992

By the end of 1992, the economic integration of the present members of the European Community should be far advanced. Of the 300 actions sanctioned in a general way by the EC in 1987, about 250 have been presented as formal proposals, and 130 of them have been adopted by the EC Council of Ministers. Thus far many of the measures that have passed are difficult, major items. For example, German and Italian regulations covering ingredients of beer and pasta, respectively, have been outlawed as policies which impede imports from other member countries that abide by the EC regulations.¹¹

Despite the substantial amount of progress being made toward full integration, each of the twelve countries likely will still retain its

own currency, its own tax system, and, of course, its ultimate sovereignty. Perhaps even more fundamental is the differing national traditions, especially the nine languages that are spoken in the Community.¹²

Many European nations are knocking on the door of the European Community seeking admission. In the case of East Germany, the door seems to have been knocked down, as its economy is being integrated rapidly into that of West Germany. Other nations have been told to wait until 1993. In the past, it has taken six to eight years between the application for membership and actual admittance.

An economically united Europe could well become the dominant economic power on the globe early in the twenty-first century.

Austria is a logical candidate for entry into the EC. Although the Austrian economy is very modest-sized in relation to the EC as a whole, that move could turn out to be quite strategic. Hungary likely would be close behind. Not politically, but economically we would see a sort of revival of the old Austro-Hungarian Empire (which was a more viable economic unit than its now independent, constituent parts). Czechoslovakia and Poland might be next or at least might become "associate members," a status that could be extended to other Balkan nations, especially Turkey.

Among the earliest candidates for entering an expanded EC may be the Scandinavian countries. With Denmark already a member, the pressure is on Norway to join. That in turn would increase the enticement to Sweden, Finland, and Iceland. Because of the traditional political neutrality of those countries, much would depend on further easing of military tensions and the changing role of NATO from a primarily military alliance to a political association.

Although the member nations of the EC are expected to be working in harmony much of the time, each will continue to have individual values, cultures, and needs. Looking beyond the initial adjustment period, an economically united Europe could well become the dominant economic power on the globe early in the twenty-first century if not sooner. As Stanley Hoffman, chairman of the Center for European Studies at Harvard, notes in his comment on the European Community:

Clearly, the purpose of the whole effort is not merely to increase wealth by removing obstacles to production and technological progress, but also to increase Europe's power in a world in which economic and financial clout is as important as military might.¹³

Eastern Europe

There is a great deal of pent-up consumer and industrial demand for American goods in the former "Iron Curtain" countries. Despite the enthusiasm of their citizens, the former Soviet satellites are only in the early stages of moving to a more capitalistic economy. The challenge to these countries is to convert their inefficient nationalized industries to competitive private enterprises. The consumers of those nations lack purchasing power, however, and their governments are already heavily indebted to the West.

Generous supplies of equity capital from the United States and other Western nations will be required to create a modern, competitive stock of factories and production equipment in Eastern Europe. But attracting foreign capital in substantial amounts will require dismantling the elaborate networks of controls established by their Marxist governments.

Privatization of government-owned-and-operated firms will have to precede or at least accompany the establishment of a free market. Once ownership is private and individuals are able to cast their economic votes through consumer demand, prices should move closer to their market-clearing levels. More realistic prices will create temporary hardships for consumers who have enjoyed the transitory benefits of price controls. But a true price system far more effectively communicates the economic information which is needed to help direct foreign investment to the more profitable opportunities which, in turn, will help develop the Eastern European economies.

In order to convert bureaucratic enterprises into true business firms, rank-and-file employees in Eastern Europe will have to shed the attitude, "They pretend to pay us and we pretend to work."¹⁴ Workers will have to learn quickly what Americans have known for a long period of time: although the interests of management and labor may not always coincide in a capitalistic society, there is a basic relationship in a market economy between the productivity of workers on the job and the ability of the company to be a good employer. Productivity improvements are the catalyst for job longevity and the prospects for advancement in pay and fringe benefits.

Eastern Europeans will encounter the economic forces that Americans and Western Europeans take for granted: under a free market system, factors of production will tend to move to those industries with the highest return. These industries will be the ones which produce goods that are disclosed by the price system to be more highly desired by consumers. The circle will then be complete. The greater availability of these desired commodities will enhance incentives for workers to increase productivity -- and hence their

purchasing power. Thus lifting price controls, although politically unpopular in the short run, starts a process that raises consumer living standards in the longer run.

This transition will not be an easy one. Four decades of communist rule have left the economies of the Eastern European nations in very poor shape. Poland, for example, experienced an inflation rate of 55 percent a month prior to its program of austerity. That hyperinflation resulted from a monetary policy so easy that government enterprises paid negative real rates of interest (the interest rate was less than the inflation rate).

A modest level of productivity would enable Eastern European firms to be competitive in world markets while delivering improved living standards to their employees.

Poland's budget deficit came to 30 percent of the entire budget, and 10 percent of the GNP. The Poles are now trying to eliminate the subsidies to nationalized industries and to various consumer groups at the same time that they have lifted price controls. The immediate result is that goods are available but few consumers can afford them. This situation is typical of the early stage of adjusting to a freer economy, with prices first rising sharply and, when excessive inventories develop, often declining just as abruptly.

While trying to end runaway inflation, Poland will be privatizing its inefficient nationalized enterprises and closing down or restructuring an archaic industrial base. Eastern European enterprises are notoriously overstaffed because communist theology does not acknowledge the presence of unemployment. One Polish steel complex employs 30,000 workers to make the same amount of steel for which an American company uses 7,000 people.

The Poles -- and Eastern European nations generally -- face a rough road ahead for the next several years. With their low labor costs, the Eastern European economies could be tough competitors, if they succeed in getting their acts together. In Poland, for example, the average factory worker earns approximately \$20 a week.

A modest level of productivity would enable Eastern European firms to be competitive in world markets while delivering improved living standards to their employees. After a period of industrial restructuring, many of the enterprises could become suppliers and subcontractors to American and Western European businesses that are being pressed hard by Asian competitors.

From the viewpoint of American investors, Eastern Europe provides intriguing combinations of high risk and high profits. The

overstaffed, inefficient nationalized enterprises are veritable gold mines of potential cost and profit enhancement. The longer term prospects are exciting. For example, the construction of adequate storage facilities in Gdansk might help make that city a major port of entry for all of Eastern Europe.

More fundamentally, it would be a great achievement to demonstrate to the world that the movement from capitalism to communism is not a one-way street. No nation has yet been successful in returning from communism to capitalism, but the prospects are brighter now than ever before for carrying out that change.

Asian-Rim Countries

Looking across the Pacific, our economic relations with Japan have been souring. Surely, there are shortcomings on both sides of the Pacific, and the Japanese have made some significant efforts to respond to American concerns. In 1985, Japanese exports to the United States were three times the amount of their imports of American goods and services. Since then, the rising yen and the growth in the Japanese economy have contributed to a substantial increase in the volume of Japan's imports. During the period 1985 to 1988, overall Japanese merchandise imports rose by 40 percent; in the manufacturing sector, imports grew by 80 percent. This rising volume has benefited U.S. companies whose imports to Japan increased by 100 percent during the same time period -- by more than 120 percent in the case of U.S. producers of manufactured goods.¹⁵

The expansion in U.S. exports to Japan has helped shrink the U.S. current account deficit with Japan from \$40 billion dollars in 1985 to \$25 billion in 1988. Because each dollar of American exports to Japan is currently offset by three dollars of Japanese exports to us, the improvement in our trade balance has been modest (U.S. exports to Japan must rise three times as fast as imports just to keep the trade balance the same).

Moreover, Japan's subsidies to its beef, rice, and telecommunications industries are examples of unfair trade policies which arouse American antipathy. Japan's cultural traditions and historical methods of doing business (notably a tightly controlled distribution system) have also contributed to the widespread belief that many of its domestic markets are virtually impenetrable to outsiders. These subtle and indirect forms of protectionism may help to explain why Japanese consumer goods are priced so much higher than comparable American items.¹⁶

In the meantime, Japan and the other Asian-rim economies are

establishing their importance in the global and American economies. During the period 1980-1987, Asian imports of American-made goods increased at a rate of 25 percent, as compared to 20 percent by European nations. However, the Asian economies supplied 40 percent of all U.S. imports, nearly twice that supplied by all of Europe.¹⁷

The Asian-rim nations could easily establish themselves as the most rapidly expanding marketplace for American goods and services in the coming decade. Asia's population is expected to grow by about 240 million during the 1990s. This dramatic increase in labor-force potential, coupled with Asia's advanced technology and work ethic, would also increase its productivity and insure greater consumer purchasing power.

After lots of intensive research, it seems that the magic formula used in Japan, Korea, Taiwan, Hong Kong and Singapore consists of:

- Going to school longer and studying harder.
- Working harder and producing more.
- Consuming less and saving more.
- Investing in the next generation so that this process may be repeated.

This is a formula the United States could follow without being sued for patent infringement.

Companies in the United States might find very rough competition across the Atlantic Ocean -- in Europe -- as well as across the Pacific, on the part of Japan and the other Asian-rim nations. All of these developments point up the need to strengthen the competitive position of American business here at home.

Business Strategies for American Firms

For the individual firm, there is substantial similarity between the domestic threats of losing corporate control via hostile takeover and the eroding of market position due to new foreign competition. In both cases, the firm has to review its strengths and weaknesses and to rethink its long-term strategy. Streamlining and restructuring can be effective responses to both sets of factors.¹⁸ As some firms are learning the hard way, a global economy does not necessarily mean that every company should try to cater to widespread foreign markets. It may mean that some should focus on specialty products and market niches where they have special advantages.

Truly fundamental changes are occurring in the very nature of business relationships. Joint ventures are no longer an obscure legal aspect of business, and strategic alliances are not just a theoretical possibility.

AT&T is a good example of the emerging multinational firm, but it is hardly unique. The company was anxious to enter the semiconductor business but did not have a broad enough product line to be a major factor. The answer for AT&T was to form a partnership with Japan's NEC Corporation. AT&T is trading some of its computer-aided design technology for some of NEC's advanced logic chips. AT&T's foray into joint ventures does not end there. Another recent alliance provides access to design technology for memory chips from Mitsubishi Electric in exchange for making and marketing the chips.¹⁹

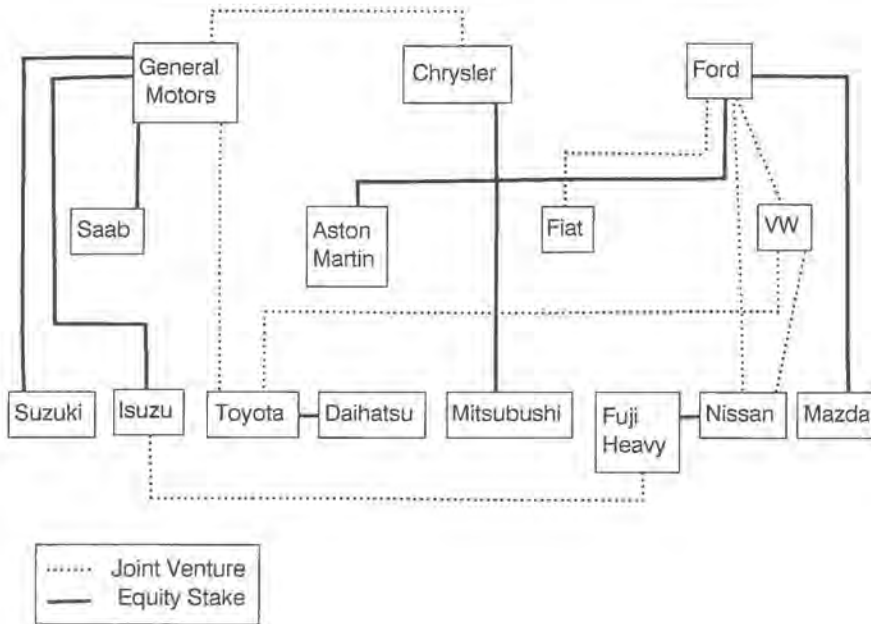
United Technologies' Otis Elevator is a current example of geographic diversification. In order to develop its customized Elevator 411 at the lowest possible cost, Otis Elevator utilized six research centers in five different countries. Otis' Farmington, Connecticut, group handled the systems integration, its unit in France perfected the door systems, the Spanish division handled the small-gear components, the German subsidiary was responsible for the electronics, and the Japanese segment designed the special motor drives. This internationalization of design and manufacturing saved more than \$10 million in design costs and reduced the development cycle by half.²⁰

The automobile industry furnishes a fascinating example of the new global economy. Audi, a subdivision of Volkswagen, assembles some Porsches; VW in turn produces cars with Ford for the Brazilian car market; Ford with the help of Nissan is currently designing a new minivan; Nissan, in addition, owns 5 percent of Subaru's producer, Fuji Heavy Industries; Subaru and Isuzu jointly produce cars in America; and finally, 40 percent of Isuzu is owned by GM, which also owns 5 percent of Suzuki.²¹ (See Figure 1 for the various automobile company relationships.)

IBM is often cited as the role model for foreign firms focusing on high technology markets. Potential imitators note that the corporation's basic research laboratories are in Switzerland and Japan, as well as the United States. Its 30-odd research divisions are located around the world. Thus, the process of international technology transfer at IBM is often internal to the firm. Xerox Corporation is another interesting example of global production. Xerox has introduced some 80 different office copying machines in the United States that were engineered and built by its Japanese joint venture, Fuji Xerox Company.²²

Figure 1

THE COMPLEX WORLD OF THE AUTOMOBILE INDUSTRY



Source: Center for the Study of American Business, Washington University, St. Louis, Missouri.

Several key actions or capabilities tend to characterize the American business firms that perform well in international markets:²³

- They translate a domestic strategic advantage overseas by getting close to their customers and adapting that strategy to the local markets. For example, Pall Filters, the major U.S. producer of wine filters, succeeded in selling to the snobbish French wine makers. It completely redesigned its filters, coming up with a French version. The company succeeded in penetrating the Italian wine market by designing a third type of filter.

- They do not set up large international bureaucracies. The cost of the international staff rarely exceeds 1 percent of sales. Most overseas operations are run by foreign nationals who best understand the local markets. CEOs of successful foreign subsidiaries are more likely to be hands-on managers than financial or legal executives.
- They start their foreign operations when the overall companies are still of a moderate size. This is in sharp contrast to the widespread notion that only giant firms such as IBM can succeed in selling abroad. To do well in the United States no longer suffices in penetrating new overseas markets. Many foreign economies are growing faster than our home markets. Most of the successful foreign operations tend to be profitable by their second year (contrary to the notion of a long build-up period being necessary).
- They encourage foreign subsidiaries to make innovations which, in turn, can also be used in the United States. For example, Dunkin' Donuts established its reputation in the United States by always having fresh donuts and coffee prepared on the premises. In Tokyo and Manila, space for cooking was not available on an economical basis. The company responded by devising a way of preparing the donuts and coffee on the trucks bringing in supplies. This method was so successful that it is now used in the United States.

Globally oriented executives with the marketing knowledge of many regions and their respective needs are gradually replacing the traditional managers oriented to a single location. This change also requires the development of products that can be regionally modified for different marketing methods and customer needs. Concurrently, corporations are emerging that can produce at levels which will yield global economies of scale. These firms will also be able to manufacture and distribute with regard to the different local requirements of the consumers in the European market. The levels of risk of the global firm are likely to be relatively lower than that of local companies -- with many benefits as well. For example, the diversification should justify higher and more advanced levels of R&D.

Implications for Public Policy

The current battles over trade protectionism and foreign investment restrictions are only the most obvious manifestations of the rising tension between domestic political forces and transnational economic forces. The private enterprise is increasingly global in its scope of activity. It is not just a matter of selling abroad, but of engaging overseas in such basic corporate functions as purchasing, financing, research and development, and production.

Government policy, in the United States and elsewhere, is changing. However, it is a matter of playing "catch up ball," lagging behind both technological advances and economic pressures. The tension itself is nothing new. It has traditionally existed between private enterprises and the rulers of developing countries (see Table 1 for details). The tension between governments generally and the business firm is being exacerbated by the rapid rate of economic, social, and technological change.

Fortunately, there is another force involved that ultimately carries the day -- the citizen-voter-consumer. Voters still care very much about investments, production, and jobs in their country and state and locality. And politicians react to that relationship while companies take advantage of it. But there is a rapidly growing and far more positive aspect: consumers vote every day of the week with their dollars, yen, deutschmarks, pounds, francs, and lire. They think more about price and quality than country of origin. They go to movies produced in many nations. They watch television performers from almost every part of the globe. And they increasingly travel to and communicate with people around the world. Without thinking about it too deeply, most consumers are adapting to the global economy much faster than is the political process.

There is a useful role for government in dealing with the global marketplace and it is well known: Enhance the productivity and competitiveness of American business by reducing tax and regulatory burdens and lowering the real cost of capital in the United States by curbing deficit financing.

Also, antitrust laws need to be updated. It took decades for the Justice Department to acknowledge the role of imports in the domestic marketplace. Yet the "relevant market" (a key concept in antitrust enforcement) often now extends beyond the borders of the United States. Likewise, the geographic restrictions on American banks, limiting them to a single state or region, prevents them from attaining the economies of scale and market positions that would match the now dominant power of Asian and European financial institutions.

A challenging task of economic education faces the United States today in helping citizens (consumers/taxpayers) to understand the increasingly global nature of economic life. True, it is easier to see the impact of foreign money in the United States than it is to visualize the role of American investment in other nations. Yet the effects flow in both directions.

A quarter of a century ago, the citizens of Western Europe were complaining about making the world one big Coca-Cola franchise. The "American challenge" was a popular topic for public debates

Table 1

TENSIONS BETWEEN DEVELOPING-COUNTRY GOALS AND BUSINESS ACTIVITIES

Developing Countries	International Private Enterprises
Promote local ownership	Maintain global standards and efficiency
Increase local control	Minimize cost and complexity of delivering technology and capital
Change payment characteristics and reduce duration of contracts	Receive just returns for risks
Minimize source firm's control over use of technology and capital in user nation	Gain assurance regarding property rights over use of private resources
Separate technology from normal private investments	Provide technology as part of long-term production and market development
Remove restrictive business clauses in investment and technology agreements	Maintain ability to affect the use of capital, technology and associated products
Minimize proprietary rights of suppliers	Protect right to profit from private investments
Reduce contract security	Use contracts to create an environment of stability and trust
Encourage transfer of R&D to host country	Maintain control of R&D paid for by company
Develop products suitable for domestic markets	Gain global economies of scale to lower cost of products to consumers

Source: Adapted from the President's Task Force on International Private Enterprise, *The Private Enterprise Guidebook* (Washington, D.C.: Government Printing Office, 1984).

overseas. This nation's reply was that U.S. investment benefited foreigners by creating employment, income and tax collections in their countries. But now the shoe is on the other foot. Nevertheless, the results are very similar. Foreign investment is creating jobs, income, and tax revenue in this country. With the financing of our outsized budget deficits draining off so much of our domestic savings, that foreign money is a key factor in the continued prosperity of the United States.

Foreign investment is creating jobs, income, and tax revenue and is a key factor in the continued prosperity of the United States.

In a positive way, public policy should focus on the government's area of primary responsibility: the education of the future American work force. In the international economy in which the next generation of Americans will be competing, it is sad to report that, compared to most other industrial nations, our students know less biology, chemistry and math, understand little of foreign cultures, and rarely speak or read foreign languages.

The low literacy rates and high drop-out rates cannot be blamed on foreigners. Dealing with domestic educational shortcomings is the unique responsibility of Americans. A well-educated citizenry is vital to the future of a democracy; it is also the key to achieving greater productivity and global competitiveness.

A final note: Here at home, we are so conscious of our limitations -- budget deficits, trade deficits, and the serious social problems facing our young people. Pessimism clouds America's view of the relative strength of the domestic economy and causes many to feel that the United States has lost its position as the economic superpower. In fact, the average American can still make in thirty minutes what it takes the Japanese an hour to produce. The purchasing power of the average American is approximately 7 percent higher than that of the next wealthiest country (on a per capita basis), which happens to be the Canadians -- not the Japanese.²⁴

There is nothing like a trip overseas to remind Americans that the United States must be doing something right. So much of the communist and socialist worlds are moving towards freedom and the competitive marketplace in which private enterprise can flourish. The model they have in mind is the United States. In any event, the United States remains the only nation that is simultaneously a military and an economic superpower.

Notes

1. "America and Japan: The Unhappy Alliance," *The Economist*, February 17, 1990, pp. 21-24; Jane S. Little, "Intra-Firm Trade," *New England Economic Review*, May-June 1987, pp. 46-51.
2. Yuri N. Maltsev, "When Reform Collides With Ideology," *The American Enterprise*, March/April 1990, p. 89.
3. Brian Reading, "A Greater European Century?" *Across the Board*, December 1989, pp. 17-20.
4. Manuel H. Johnson, "Talk given to the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives," *Federal Reserve Bulletin*, November 1989, pp. 744-750.
5. Wilhelm Nolling, *Fortress Europe? The External Trade Policy of the European Communities* (Frankfurt, West Germany, 1988), p. 31.
6. "France Restricts Non-European Community Programming," *Video-News International*, February 1990, p. 1.
7. "Business This Week," *The Economist*, February 10, 1989, p. 61. Daimler-Benz and Mitsubishi have subsequently begun negotiations on a major cooperative endeavor which would strengthen their joint position in aerospace and other high-tech markets.
8. In 1985, intra-Community exports were 55 percent of total trade. See *Basic Statistics of the Community*, 24th ed. (Eurostat: Luxembourg, 1987), p. 269.
9. Thomas F. Gross, "Europe 1992," *Management Review*, September 1989, pp. 24-29.
10. "Calls Japan the One to Beat in Europe After 1992," *Electronic News*, September 1989, p. 37.
11. Michael Emerson, "The Emergence of the New European Economy of 1992," *Business Economics*, October 1989, p. 5-9.
12. Nolling, op. cit., p. 26.
13. Hoffman, op. cit., p. 43.
14. Murray Weidenbaum, "Poland: The Bright Side to Waste and Featherbedding," *Across the Board*, March 1990, pp. 12-13.
15. "America and Japan," op. cit., pp. 21-24.
16. A recent estimate of the average differential is 40 percent. See "America and Japan," op. cit., p. 22.
17. Gene Koretz, "Why Asia Looms Larger in the U.S. Trade Picture," *Business Week*, July 18, 1988, p. 16-17.
18. Joseph P. Womack, "A Post-National Auto Industry," *JAMA Forum*, vol. 8, no. 1, pp. 3-7.
19. Bernard Wysocki, Jr., "Cross-Border Alliances Become Favorite Way to Crack New Markets," *Wall Street Journal*, March 26, 1990, p. 1.

20. "The Stateless Corporations," *Business Week*, May 14, 1990, p. 101.
21. "Car-Industry Joint Ventures: Spot the Difference," *The Economist*, February 24, 1990, p. 74.
22. "The Stateless Corporations," *Business Week*, May 14, 1990, p. 101.
23. William Lilley, "How U.S. Companies Succeed in International Markets," *National Economics Club Summary*, December 1, 1987, pp. 1-3.
24. "Yes, You are the Superpower," *The Economist*, February 24, 1990, p. 11-12.