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U.S. BUSINESS IN THE GLOBAL MARKET OF THE 1990s
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Good afternoon! It is a pleasure and an honor to be speaking to the Jacksonville Economic Roundtable. I think it is particularly important that Jacksonville, one of the growing economic centers in Florida and the Southeast, have a forum of this nature, and I am gratified to be initiating the revitalized economic roundtable after its decade of dormancy. During that decade, perhaps the single most striking development was the increasing globalization of markets for goods and services. Indeed, it is now inappropriate to talk about the economic outlook for a single country without alluding to the international dynamics which increasingly shape the economies of all nations. Therefore, I would like to talk about the outlook for U.S. business in the global economy of the 1990s. I will begin with a brief overview of the emerging global market and then give you my thoughts on the outlook for the various countries and regions that comprise it. Finally, I will make a few remarks on what that outlook implies for U.S. business.

Overview of the Globalizing Market

Let me begin by saying I am optimistic regarding the long-term outlook for the world's economies. My chief reason for this positive view is the strong trend toward the melding of national markets into a single global market. Numerous countries that had earlier limited their international commerce now seek to enhance their trading relationships. The people in the formerly communist nations of Europe and Asia as well as in those Latin American countries that erected barriers to foreign products and investments now clearly desire to develop in ways that

will improve their living standards. Chronic shortages of basic goods and poor quality in the few products that are available have led them to realize that inward-oriented economic policies run counter to that objective. Nothing has demonstrated the broadening base of global cooperation more clearly than the isolation of Saddam Hussein. Hussein is a symbol of the kind of self-centered nationalism that is becoming an exception to the emerging sense of community among nations. The unity of the United States, the Soviet Union, and a broad array of nations in opposing Iraq's designs underscores the desire to create a new environment of international cooperation in place of the confrontation and fragmentation that has marked the past four decades.

As the movement toward globalization encompasses more of the less developed parts of the world, I think we should see faster growth worldwide. The pace of expansion in individual countries is likely to vary, however, depending where they stand on the spectrum of development. Growth in some developing economies could be quite brisk as they rebuild infrastructures that suffer from years of neglect and satisfy pent-up consumer demand. In the more advanced economies--especially the United States--a degree of saturation seems to have taken hold. As the demand for first-time purchases of homes and automobiles ebbs among the "baby boom" generation in this country, for example, the U.S. housing and auto industries have already felt the effects of the kind of satiation to which I refer. This slackening of demand is not entirely negative, however, insofar as it mitigates to some extent the inflationary pressures that have been troubling for some time. Nonetheless, the implication for businesses in the advanced industrialized countries is that opportunities will lie perhaps less in their domestic

markets and more in those developing countries where demand is greater.

One common denominator in the economic outlook for industrialized and developing nations alike is oil prices. From our present vantage, it is virtually impossible to foresee where oil prices will finally settle after the Persian Gulf crisis is resolved. Still, prices would have to rise extraordinarily to surpass their levels of the first two years of the past decade in inflation-adjusted terms. Nevertheless, this critical uncertainty must be borne in mind as we turn to the outlook for growth in the industrialized and developing economies.

Outlook for the Industrialized Countries

I think in general the industrialized countries' overall capacity to grow over the next decade is positive and ranges from moderate in North America to fairly strong in Europe and the Pacific Rim. Beginning with North America, I see growth potential in the United States and the closely related Canadian economy as somewhat reduced from past levels. Whereas we have viewed long-term potential for real gross national product as being around 2 and 1/2 percent per year in much of the post-World War II period, I think we need to shade that expectation back to 2 percent or even a little less in the 1990s. My main reasons for this view are the implications of demographic trends already taking effect in our economy and, second, greater worldwide competition for investment capital. As a result of moderate growth and the relative satiation of consumer demand I mentioned a moment ago, domestic consumption is likely to provide less impetus to overall growth than in the 1980s. The trade sector should support expansion, on the other hand, as greater volumes of U.S. exports flow to foreign consumers.

The demographic factor is the shrinking pool of entry-level labor compared to the past now that the baby boom has been absorbed into the workforce. Scarcer supplies of labor imply higher costs over most of the coming decade. U.S. industries will need to counter these costs by greater investment in labor-saving technology. Unfortunately, competition for capital is likely to be greater in the coming decade. One source of competition could be the U.S. government's funding needs associated with large budget deficits if Congress cannot resolve this critical issue. The international economy also provides numerous alternatives for investors, among them emerging opportunities for higher rates of return in Eastern Europe, strong investment demand in Western Europe, and, eventually, perhaps, a resumption of lending in Latin America.

Meanwhile, greater integration of the world's economy should continue to bolster exports for U.S. firms. As we shall see in a moment, the outlook for Europe is a bit stronger than for the United States, and this suggests healthy markets for U.S. goods. Farther down the road, I also look for a revival of the once-important but now stagnant trade relations between the United States and Latin America as those countries continue to get their economic houses in order. I am hopeful, too, that the current Uruguay Round of the General Agreement on Tariffs and Trade (GATT) could bring greater compensation for intellectual properties like patents and copyrights.

Today this country's comparative advantage lies increasingly in doing the basic and applied research that leads to the development of new products. Many of these may sooner or later be manufactured abroad. In my view, it is vital not only to the United States, but for the encouragement of creative advances in all countries that GATT works to ensure that new

technologies are licensed and distributed in a way that adequately rewards the firms undertaking the risks associated with such research and development. Assuming such developments occur, I feel that exports will probably be a major source of U.S. growth in the coming decade. However, slowing growth in the labor force, competition for investment funds from domestic and international sources, and lower consumption are likely to keep overall growth from being as strong as in the 1970s and 1980s.

Western Europe could grow at a 3 to 4 percent rate on average during the coming decade, with a spurt of growth coming in the early years of the 1990s. One primary source of this expansion should be the lowering of remaining restrictions on the movement of goods and services within the European Community (EC) after 1992. Direct savings will occur from the elimination of tariffs and other barriers to trade among the 12 EC countries. The removal of such restrictions should foster more competition across and within borders, spurring more efficient production. Moreover, we will likely see more merger and acquisition activity in numerous industries, suggesting new economies of scale. Certain countries--Germany in particular--could show higher rates of growth resulting from their investments in Eastern Europe. However, none of these developments will come easily or quickly. Much discussion remains on the question of unifying monetary systems in Europe and numerous details of the 1992 economic integration. Some countries, like Spain, Portugal, and Greece, whose economies are not as highly developed as those of Germany and France, for example, may not participate as fully in the short-term gains of an economically integrated Europe. Indeed, these countries may feel some antagonism toward efforts of their stronger partners to develop Eastern Europe.

Along the Pacific Rim, Japan and the newly industrialized countries of Taiwan, South Korea, Hong Kong, and Singapore could display an even higher capacity to grow than Western Europe. These countries will continue developing new sources of labor in China, Thailand, Malaysia, Indonesia, and they may also capitalize on emerging opportunities in Viet Nam and Cambodia. For both cultural and geographical reasons, these developing Asian nations represent natural markets for Japan and the newly industrialized countries, supplementing their already profitable penetration of U.S. and European markets.

Japan has relatively energy-efficient industries, which should allow better absorption of higher petroleum prices in spite of that island nation's dependence on imported energy. The aging of the Japanese population will gradually slow growth potential there, however. Moreover, in spite of some progress toward alleviating structural problems in their domestic markets and non-tariff barriers that discriminate against foreign producers, trade surpluses are likely to persist. Such imbalances could aggravate the kind of tensions that were the focus of talks between U.S. and Japanese negotiators earlier this year.

Outlook for the Developing Countries

The outlook for the developing countries is mixed. Those in Asia could show steady improvement. As I mentioned a moment ago, the developing Asian economies stand to benefit as Japan and the newly industrialized countries expand their investments in Southeast Asia. These countries do not struggle under the debt burdens that beset many developing countries elsewhere, and more of their income can therefore go to productive investments at home.

However, internal instability could continue to plague Cambodia, Burma, Pakistan, Sri Lanka, and the Kashmir in India.

Economies in the Soviet Union and the former communist nations in East Europe could improve after a few years of adjustments. These countries need to resolve how they will make their currencies convertible and evolve functioning markets for capital, labor, and consumer and capital goods. In addition, their future business leaders have much to learn about doing business in a capitalistic manner. Hopefully, joint ventures with established industries from outside can speed up the learning process. As the process of making these kinds of structural and conceptual changes proceeds over the next several years, though, economic disruptions are likely to flare up and fray the patience of people who have already suffered a good deal of privation. Thus, the road will be a difficult one, but I am hopeful that as the decade wears on, we will see real improvements in many of these economies.

I am also optimistic about our neighbors to the South. In fact, Latin America appears more promising to me now than at any point in the past ten years. For one thing, the region's national leaders are now mostly elected in contrast to the military-backed dictators of the recent past. These leaders are also adopting economic readjustment policies that, while painful in the present, hold promise for the future. Reforms are being built on the region's considerable natural and human resources and on an industrial base which is large, though often inefficient and in need of modernization. Privatization and fiscal reforms are already showing signs of rejuvenating the Mexican economy, and other countries appear to be moving in the same

direction. To consummate such reforms, greater investment will be needed, and the sizable foreign debt of many of these nations inhibits the flow of capital to productive ends. For this reason, I am enthusiastic about the "Enterprise for the Americas" concept advanced by the U.S. government in June of this year and endorsed by the G-7 heads of state at their meeting in July. This initiative would provide opportunities to reduce some of the official debt owed to the United States, suggest steps for liberalizing Latin American-U.S. trade flows, and encourage domestic and foreign investment in the region. I believe this could move us farther in the positive direction established last year by the Brady Plan.

In Africa, the prospects are considerably bleaker. A number of African countries have extensive foreign debt burdens, and civil disorders continue to disrupt economic development. Markets for many of the continent's primary products are likely to remain weak. Moreover, there are no obvious "partners" who might step forward with investment assistance as Germany and Japan might in other regions. One shared resource that could work to the advantage of African, as well as some Latin American and Asian countries in the 1990s is the dwindling rain forests. As we work out solutions for mutual concerns like global warming and ozone depletion, the rain forests' oxygen production, not to mention the potential medical and scientific value of as-yet-undiscovered species of plants and animals they contain, are assets that can only increase in value. There is a pressing need to evolve market mechanisms for valuing these assets, which have long been taken for granted as free to the taker. I acknowledge that this is a complex issue with a range of scientific, economic, and social implications. Still, I believe the next decade will be a period of increasing environmental awareness. Thus I have some optimism that developing

countries may receive some form of incentive to conserve their irreplaceable natural assets.

Opportunities for U.S. Business in the Global Market

On balance, the economic picture for the 1990s looks fairly good, at least among the industrialized countries. And I think there is reason to be optimistic that at least by the end of the decade, an increasing number of the developing nations could be drawn into more productive participation in the evolving global market. Ironically, I think it is time that the United States, the world's most powerful economy, began to play a more consistent role in the global economy as well. Of course, at the most sophisticated levels of banking and finance, U.S. firms have long been important international players. Our largest companies have also extended their reach around the world. This involvement has helped the share of both imports and exports for the United States to grow substantially over the past forty years. Exports, which were just over 7 percent of GNP in 1947, ran about 14 percent of total GNP last year. The share of imports rose from 4 to 16 percent during this period.

However, it is past time that we realize that significant opportunities are being forgone because many other businesses stubbornly cling to an insular view of the world, one in which the U.S. market is seen as the only one that matters. If for no other reason than the moderate demand we should expect in our domestic economy, this view is increasingly out of step with reality. At the national level we also treat our financial services industry--in many ways the keystone of our economy--as if foreign competition did not exist. I would like to elaborate on these two themes as a way of drawing out the implications of globalization for U.S. business.

There is no better example of the need for U.S. businesses to broaden their international horizons than the market potential of post-1992 Europe. As you know, the EC is progressing toward market integration at a rate that would have seemed impossible even two years ago. It seems more certain than ever that in the first few years of this decade Europeans will draw together into a market with more consumers than in this country. This development will have a major impact on the future course of business in Europe and among the EC's trading partners, including the United States. Most immediately, the dismantling of barriers to shipping and selling goods should open this large market for the kind of retailing to which we are accustomed here. Our industries are geared toward large manufacturing runs that supply products to nationwide retail outlets and distributors with numerous local accounts. It seems likely that post-1992 Europe will tend toward a similar market structure, and this shift should prove advantageous to U.S. producers.

While many foreign firms have long invested in understanding the preferences of American consumers, not many U.S. companies have made a comparable commitment of resources. We need to develop a cadre of internationalists in management and marketing who can provide cultural insights, whether within companies or as consultants, especially the small- to medium-sized firms. U.S. businesses in this size range bring many of our most innovative products to market, yet they are somewhat behind their foreign counterparts in seeking out overseas customers. Such companies need to discover the foreign markets that are receptive to their products. They also must acquire a sense of how to appeal to consumers and businesses in other countries and begin to speak their languages.

One U.S. industry in particular, the financial services industry, is being kept from gearing up for the global market in an optimal way by anachronistic regulations. Multinational corporations are attracted to banks that can offer "one-stop" convenience for a full array of services from loans to underwriting equity issues as well as the capacity to handle sizable transactions. Those big international players may take their business to European and Japanese banks if U.S. banks remain strapped by lack of uniformity among 51 state and national banking laws and by our failure to complete the task of product deregulation in this country. It is therefore important that Congress take three fundamental actions: (1) reform deposit insurance; (2) repeal Glass-Steagall; and (3) enact interstate banking legislation. Together, such measures would strengthen U.S. banks and allow them to diversify their activities and geographic scope and better serve their customers seeking to transact business overseas.

Conclusion

In conclusion, the 1990s promise to be a period during which the global market, which has been gathering momentum over the past decade or more, becomes a fait accompli. The collapse of communism and the return to civilian governments in Latin America have illustrated the desire of the less developed countries to progress toward greater partnership in a world more unified in economic purpose. The challenge for U.S. businesses in the decade ahead is to shake off their narrow focus on their home market and seize the initiative in a newly unified world market.