

Facts Sheet:

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DISK - # 35 Title - Focus



The U. S. in the Changing World Economy

KEY JUDGMENTS

The global economic forces discussed in this paper have the following major implications for US interests and policy during the next five or so years:

- US economic performance will play a much greater role in stimulating global economic activity than has been the case since the 1960s. Neither Western Europe nor Japan is able or willing to provide the engine of growth. The oil-rich states, the newly industrializing countries, and the Communist countries, all exhibit disabilities that prevent their being the burgeoning markets they were in the 1970s.
- The ability of the US government and, in fact, all other governments, to control global economic forces will continue to diminish. This results from pervasive interdependence--the increasing and accelerating flow of capital, technology and know-how across national borders, and from the internationalization of production through multinational firms. As a consequence, governments will find it increasingly difficult to pursue preferred domestic economic policies without considering the impact of their policies on other nations' economics, and the influence of international market forces on their own.
- The competitive challenges facing the US economy will continue to shift away from traditional consumer manufactures and toward high technology products and the service industries. Other developed countries will continue to pare the US technological lead and to shorten the time required to absorb the most advanced technology

pioneered by others. The newly industrializing countries (NICs) of East Asia and Latin America will take over an ever-widening array of traditional consumer manufacturing lines from textiles to televisions. US firms, thus, will have to push the industrial development frontiers more aggressively and be ready to shift quickly into new product lines. US workers will have to be more highly skilled and prepared to shift to new jobs more frequently.

- Western Europe's economic woes will aggravate the existing differences with the United States on such basic issues as trade, finance, and defense. Although the region's economic difficulties will eventually generate powerful new forces for change, sharp divisions within and among European states will, for the next several years, make US-European relations particularly difficult.
- Economic frictions with Japan will not likely be resolved for many more years. The Japanese tendency to concentrate their R&D efforts, production know-how and marketing skills in a relatively few but highly dynamic industries and product lines, will create major disruptions in Western markets. The Japanese will aggravate these trade frictions by continuing to shelter their domestic market to a degree unparalleled elsewhere. Although these fundamental problems will remain, their intensity will wax and wane with the swings in the yen-dollar rate. Within the year, for example, the expected appreciation of the yen against the dollar will, a year or so thereafter, make US exports more competitive, thus, reducing--at least temporarily--the trade frictions.

- Next to the Japanese, the newly industrializing countries (NICs) will pose the most difficult trade adjustment problems for the United States. The NICs will certainly be able to compete effectively over a widening range of products, since they are endowed with a disciplined, highly skilled, low-wage labor force. At the same time, the NICs will provide the fastest growing foreign markets for US goods and services.
- Declining real oil prices will create a new set of political tensions for oil-exporting LDCs. The poorer and more populous producers will have to deal with reduced economic growth and unfulfilled expectations of rapidly rising living standards. Even with reduced dependence on foreign oil, the US security interests in these countries will remain strong.
- Most of the poorer LDCs are unlikely to achieve much economic progress, and their shaky political regimes will, in many cases, make tempting targets for Soviet meddling.
- The deteriorating economic situation of the USSR, combined with an aging leadership, poses grave uncertainties for US policy. It will remain unclear for some time, whether economic stringencies will propel Soviet leaders toward foreign adventures or toward accommodation with the West. The United States and its allies, thus, will have to be prepared both to deter and contain Soviet expansionism and to encourage and reward Soviet moderation.

- The global economy will remain vulnerable to three low probability events that could have a dramatically disruptive impact.
  - A substantial and prolonged interruption in the flow of Persian Gulf oil.
  - The collapse of the international financial system.
  - Rampant protectionism.
  
- The most dangerous period for these contingencies will be at the top of the business cycle, when speculative pressures are at their peak, and at the bottom of a recession, when unemployment and financial stresses are most intense.