LUNCHEON REMARKS

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THE CENTER FOR INTERNATIONAL BUSINESS CONFERENCE

Dallas, Texas

April 9, 1981

THE GLOBAL POLITICAL CLIMATE AND THE MULTINATIONAL COMPANY: WHAT'S ON THE HORIZON?

You've invited me here to talk about, "The Global Political Climate and the Multinational Company: What's on the Horizon?" I can hardly say it, much less discuss it.

One of my associates suggested that I entitle my talk "Misery Toves Company". When I asked him why, he replied that the occasion would bring together the two "devils" of the press -- the CIA and the multinational corporation. He went on, "I can see the headlines now. Casey teaches Robber Barons dirty tricks!" I said, "How do you know it won't be the other way around?" It is easy and costly and painful to be misunderstood, but it's more costly and painful to misunderstand the kind of world in which we have to operate. And we have not understood it as well as we must.

We have been quick to talk about the interdependence of the global economy and been slow to respond to it's imperatives or even recognize it's implications for our economic policies, our security requirements, our management practices and our competitive tactics.

From World War II until the early 1970's almost all our economic policies assumed a closed economy. The United States was the policy unit, the primary trading market. The outside world was only a complication to policy and a fractional add on to the market. If exports exceeded imports, then one might adjust one's estimates to account for what was called "net

exports". And in discussions of monetary policy the term "Eurodollars" might occasionally be uttered. But by and large these were matters left to the experts and did not intrude into most policy discussions, whether in government or in the press.

Today it has become essential to think of the United States as an open economy. Any policy measure is now seen to have an immediate impact on money and trade flows, an impact that may either reinforce or, more often, vitiate the original policy move.

We now appreciate that any additional monetary or fiscal stimulus will have little effect on employment but will have an immediate effect on the position of the United States in world economy. In particular, the immediate effect of attempting through monetary means to stimulate the economy is likely to be an immediate depreciation of the exchange rate. We learned this at immense cost in the early Carter years when the attempts to pump up the U.S. economy led to the decline of the dollar from 2.6 marks to the dollar to under 2 marks in two years. After hailing a declining dollar as salutary our economic policy makers woke up to discover that the side effects of domestic monetary and fiscal policy swamp attempts to stabilize currency exchange rates through exchange market intervention and that the depreciation of the exchange rate abroad brings more inflation at home.

We learned that lesson the hard way. Take the two conscious devaluations of the dollar in the 1970's. There were few U.S. economists or economic policy makers who believed at the time that they would be an independent engine of inflation. Attention was focussed on what those

devaluations were supposed to do for our exports. We were told that since imports were only, say, 10 percent of GNP, a 5 percent devaluation could only increase the rate of inflation by 1/2 percent. The poverty of that line of thinking was demonstrated by the explosion of inflation in the 1972-75 period and again in the Carter inflation of the last few years.

In the last ten years the dollar's depreciation vis-a-vis the currencies of the fourteen other industrialized countries amounted to 17 percent, vis-a-vis Deutsche Mark a full 50 percent and vis-a-vis Japan's Yen by 37 percent. This drastic devaluation failed to make American products more competitive in world markets and our trade deficit increased alarmingly. Indeed, the decline in the dollar boomeranged to generate an inflation which burdened our competitiveness. OPEC justified raising petroleum prices substantially, largely to recoup their losses of "real" income from being paid in devalued dollars for their export of oil.

What is most disturbing is that vis-a-vis West Germany and Japan the competitiveness of our technology-intensive industries keeps on deteriorating despite the depreciating dollar.

One of the most important industries in the group of our technology-intensive industries is aerospace. Since at least World War II this industry unquestionably has been technologically the most sophisticated, most competitive vis-a-vis all other countries, and the greatest contributor to the U.S. balance of payments. In 1979, its export surplus amounted to about $10 billion. Industry specialists estimate that in the mid-60's our aerospace industry commanded as much as 90 percent of the free world's

market for large transport jets. Since then, however, foreign competitors have chipped away this share and it is now about 80 percent. Moreover, we -- meaning the industry and the Government -- are doing many a thing that greatly accelerates this process. Military and civil-shared production programs reach ever higher levels that continue to increase the foreign content of U. S. aerospace shipments.

In terms of technological sophistication, our semi-conductor industry is unexcelled. Moreover, unlike most other industries, the basic technology on which this industry was built was almost entirely U.S.-made. (Of the 14 pivotal innovations, 13 were developed in the United States and one in West Germany.) This industry's products have been critical to the development of computors, telecommunications, most sophisticated military equipment and innumerable other products. In the future it is also expected to become the key to progress in automotive technology, industrial process control (including robotics), office automation and the like. Practically since its beginning, however, the industry has been subject to intense foreign competition, mostly from Japan. By now, although the Japanese semiconductor industry has captured only 5 to 6 percent of the total U.S. market, in the technologically newest product areas -- 16K and 64K RAM -- their penetration is 40 to 50 percent of U.S. market, a much larger share than they have captured of our automobile market. In some semiconductor lines the Japanese manufacturers are clearly striving to become world leaders -- and to accomplish this leadership largely on the basis of technology they obtain from U.S. companies.

Probably the third most technologically sophisticated industry is the metalcutting machine tool industry. For over a century it has provided technological improvements not only to the huge domestic metalworking industry, but also worldwide. By now it, too, seems to be in trouble -- the United States has become a net importer of metalcutting machine tools (about $500 million worth in 1979 and $600 million in 1980). We are also host to subsidiaries of German and Japanese companies.

Finally, there is a huge problem facing our huge and old automobile industry. In its almost century-long existence this industry managed not only to implant the automobile-orientation on our entire economy, but also did the same on many other countries. The current challenge it faces from the 22-year old Japanese industry is deadly serious -- the Japanese have not only conquered about one-fourth of the U.S. automobile market, but also have cost advantage of at least 20 percent over U.S. producers and they have a product-mix that is at least six years ahead of U.S. industry's. The economic and financial dynamics work also in favor of Japanese industry, for example, relative productivity growth, relative wage rates, and relative price changes.

All this has very serious consequences not only for our prosperity, for our ability to pay our way in the world, for the value of our currency, for our ability to mobilize the capital we need. It has serious implications in undermining the industrial base which underlies our national security. Our leadership in electronics is critical to the technological edge we have in the weaponry and the transport which is basic to military

strength. As the auto industry becomes globalized our need to keep the sea lanes open will become more critical.

How do we address this slippage? Well, the first thing we need to do in both our governmental policies and our managerial strategy and tactics is to recognize that we face worldwide competition in a global market.

Let us look for a moment at the way we misapply the antitrust policy on the false concept that the market is America and not the world. We are told that four U.S. auto firms have upwards of 90 to 95 percent of the market. Yet when one looks out the window one sees that one-quarter, perhaps even more, of the new cars on the street are produced by firms outside these four. Nearly all of these additional cars are, of course, imported. If imports account for one-quarter of domestic consumption, we tend to say that four firms have 75 percent of the market -- still a rather high figure.

This way of looking at the automobile market is surely wrongheaded. There are not four American firms and some faceless imports in the market. On the contrary, there are eight or ten important firms in the market and they include such powerful and vital firms as Volkswagen, Toyota, Nissan, Renault, and Peugeot-Citroen. The reason why Chrysler seems so out of place in a list of dominant firms is precisely that it is unable to compete effectively in thisworld market and in fact has been withdrawing from it, a step at a time, by selling off foreign plants. It is now retreating even in the United States much like a formerly dominant military power reduced to a house-by-house defense of its capitol city. In a world

perspective American Motors too begins to look even less imposing than concentration statistics imply. Whereas in 1959 it was fifth in the world, it had dropped below fifteenth by 1978. Indeed, its recent arrangements with Renault make it look more like a Renault affiliate than a jointly dominant firm.

The market in automobiles has clearly become the world. In that market GM had only 28 percent in 1978 and probably less today. Ford had only 19 percent. Volkswagen and Daimler-Benz together had 12 percent. Toyota and Nissan together had another 10 percent, and probably even more today. Renault and Peugeot-Citroen together had still another 10 percent. Although GM and Ford are large, they hardly dominate the real market, as opposed to the antitrust construct of a market. The top four have less than 50 percent of the world market in autos and less than 15 percent in steel.

The dissolution of the U.S. domestic market into a larger world market is proceeding apace not merely in consumer goods, such as cameras and electronic products, where it has long since been accomplished fact, but also in basic industries, such as automobiles and steel.

In this larger world market the position of U.S. firms is slipping badly. In chemicals, for example, DuPont has dropped from first in 1959 to fourth in 1979, with Union Carbide falling from second to seventh. In 1959 the United States accounted for seven of the top ten firms, in 1979 for only three.

In electronics and applicances, six of the top eight firms in 1959 were American. In 1979 only three were still in that group.

In metal manufacturing, in 1959 the United States accounted for nine of the ten top companies, in 1979 for only two.

In pharmaceuticals, in 1959 seven of the ten top companies were American, in 1979 only five.

Many reasons can be advanced for the slippage of U.S. firms in world markets. Surely the general productivity problem is one. So too the inexorable workings of the principle of comparative advantage play a role. The United States now has a comparative advantage in agriculture, services, and, though the advantage is slipping, in specialized manufactures such as wide-bodied aircraft and computers. We know that Japan is taking dead aim, through government-subsidized research and government-influenced consolidations to create more powerful competitors to take on IBM in the world market. At the same time our antitrust policy, ignoring the reality of a world market, seeks to break up IBM and many antitrust rules make it difficult for U.S. companies to rearrange their affairs in a way that reduces costs and increases productivity in order to permit them to compete both here and abroad on equal terms with their foreign competitors.

In this world market we face government-subsidized and government-financed competition. In industry after industry, in country after country, there is no need for the competitors of U.S. firms to diversify or to merge to acquire a stable source of capital because those competitors

are owned by their governments and thus have a direct claim on the public treasury. In this open world the conglomerate merger has become an important means of competition against state-owned and state-subsidized companies.

Not enough American firms adapt their pricing and other managerial policies to the fact of a world marketplace. Our Japanese competitors set their marketing and pricing policies in terms of a global market. The domestic market is the base which permits them to price to get established and maximize their share of the larger world market. Too many American firms plan and price in terms of the domestic market and view the foreign market as an add on to be picked up later. By that time they are likely to find Japanese firms well established in the world market competing vigorously in the American market from a worldwide base.

As we lose market position in basic industry, it becomes more vital to stay ahead in the technological sweepstakes. U.S. industry still puts a greater share of it's production into research and development than Japanese and German industry. But we lag in recognizing that the world marketplace in technology and exploiting foreign technology imported in "naked form" of patents and licenses and knowhow. The use of advanced foreign technology in "naked" form immensely speeds up the importing industry's technological progress and usually at only a fraction of the cost of developing similar endogenous technology. The more voluminous are an industry's imports of such technology the faster will be its growth

of international competitiveness. Conversely, the greater a manufacturing industry's sales of advanced technology in naked form the less competitive it is likely to become once the transferred technology is put to use abroad. Based on receipts and payments of royalties and license fees it appears that throughout the 1960's and 1970's our industry sold from 7 to 10 times as much advanced technology in "naked" form as it bought. In 1977, the latest year for which there are comprehensive statistics, our industry received about $2.9 billion for sales of such technology and made purchases amounting to $282 million. Most of our industry's sales are voluntary, but at least 100 or so major companies are under court decrees to sell their technology to foreigners mandatorily -- as a result of our antitrust laws and regulations.

Both German and Japanese industry policies with respect to sales and purchases of advanced technology in naked form have been just about the reverse of our industry's policy. Throughout the 1960's the German industry's purchases (imports) of such technology were about 2.4 times as great as sales, and in the 1970's about 2.6 times as great. In 1977 the German industry paid out for such technology about $1.1 billion and received $392 million.

In the 1960's Japan, in turn, was importing some 15 times as much of such technology as it was selling, and in the 1970's about 6 times as much. In 1977 the Japanese industry's outlays for such technology amounted to $1.3 billion and receipts to $204 million.

Neither Germany nor Japan (nor any other foreign country I know of) has a policy of requiring its firms to license their technology to foreigners mandatorily.

So much for the need to get more deeply involved and relate more realistically to the global marketplace. Let's spend a few minutes assessing the risks and opportunities we can see over the horizon out there. It's a rapidly changing world.

Change is nothing new. When our first ancestors were driven out of paradise, Adam is believed to have remarked to Eve: "My dear, we live in an age of transition." We are always transiting from one age to another. What is new is the accelerated rate of change. Today we live in a world of increasing nationalism, increasing terrorism, and vanishing resources. It is these three realities I'd like to discuss briefly today.

First, the tide of nationalism is running strong in the less developed countries of the world. There is hostility and negativism toward free enterprise. There are potential dangers there for American, European, and even Japanese multinational corporations. Local politicians cannot always manage this distrust of foreigners. Free enterprise from abroad suddenly appears as foreign domination or neo-colonialism. It is difficult to predict where and when this will break out.

Nationalism is not new. It's manifestations range from restrictive policies to outright expropriation. What is new today is that it is accompanied by global economic distress. This is caused by the explosive

growth in energy costs -- in both the industrialized countries and the less-developed ones.

The enormous cost of fueling economic activity is forcing the less-developed countries into austerity and no-growth policies. They are running out of credit. They cannot meet the very high interest rates involved. All this intensifies instability.

On the plus side, there is in the less developed world a growing awareness of the importance of foreign capital, know-how and technology. The leaders in these countries now see more clearly the importance of foreign investment and access to foreign markets as a way out of their economic dilemmas.

One form of instability that I'm afraid we'll see more of around the world is terrorism -- hijacking, hostage-taking, kidnapping, assassination, bombing, armed attack, sniping, and coercive threats -- mindless acts of violence designed to create a political effect -- regardless of the innocence of the victims.

We have been keeping statistics on this subject since 1968. During that period, some 6,000 terrorist incidents have been recorded. Violence has been increasing and the last three years have been the worst.

Terrorists can come from either the left or the right extremes of the spectrum. Recently we have seen a sharp increase in right-wing terrorist activity in Europe.

Last year also marked the first time that a large number of deadly attacks were carried out by individual nations. This is a dangerous development. It is one thing for a demented individual or a private group of fanatics to resort to terror. For a nation to resort to it with all the resources it can command is another -- and much more serious -- matter.

What or who are the primary targets of international terrorism? Americans are. Two out of every five incidents involve U.S. citizens or property. The U.S. citizens are usually businessmen or diplomats -- especially individuals who are symbols of western power and wealth. Although businessmen have been the most frequently victimized in past years, they were second to diplomats in 1980. Latin America and the Middle East are the main trouble spots, with western Europe not very far behind.

It is a grim story. What do we do about it? At CIA, international terrorism has been high on the list of intelligence priorities for some time. Defensive tactics are taught to our key personnel serving abroad. As for you, I know that corporations have been searching for defensive measures to protect their people. Some have even employed consultants to conduct ransom negotiations and payoffs to terrorist groups. I think this is a mistake. Payoffs are counterproductive in the long run. Successful terrorism encourages more terrorism. Moreover, any money gained is generally used to finance future terrorist operations. What you've got to do is to adopt a firm policy and develop a strategy for dealing with terrorism before a crisis situation arises -- when the terrorists hold all the cards. You must maintain an awareness of the constant

threat of terrorism and learn how to react quickly and decisively. Terrorists must learn that there is little or no payoff where American firms are concerned.

If terrorism is a factor threatening international stability today, of equal importance is our long-term and increasing dependence on fewer critical resources worldwide. Until recently, availability of natural resources has been taken for granted. America's leadership position in the world and our own ample natural resources were sufficient. From this abundance of relatively cheap supplies, we grew rapidly to become a great industrial power.

Roughly a decade ago, we received a jolt. Shifting geopolitical patterns, coupled with rising Third World nationalism, sharply tempered our expectations. These changing circumstances first became visibly embodied in the oil crisis of 1973. Here for the first time, we could actually see and feel the crushing impact of international "non-military warfare" strike us squarely where it hurts the most -- in our pocketbooks and in our life-styles.

The crisis haunts us still with a new reality, the U.S. can no longer count itself completely as a "free spirit" in the sense of determining its own destiny. Others, well away from our borders, can now place their hands on our economic throttles. International threats are not limited to military ones. There are other power projections far more subtle because they are largely unseen and thus not readily perceived.

This resource dependence applies to more than oil, as critical as oil dependency is to the fate of our economy and to our ability to defend ourselves from outside aggression, a new spector of dependency hovers over us that promises at least an equal level of national woe should we be caught without an adequate "game plan" to deal with it. The experts refer to it as "non-fuel minerals dependency." What they mean is reliance on other nations to supply us such strategic minerals as chromite, cobalt, tantalum, and several other strange names we seldom see in a direct sense.

But the reality is there even so, because were we to lose access to these minerals, it would mean massive shocks to our economic system and current life-styles. Without these minerals, we cannot make TV sets or computers or heart-lung machines or produce high grade stainless steel for a thousand uses. The implications for our defense capabilities are just as grim. No supersonic jets -- no jets -- no sophisticated submarines.

In the future, we can expect to be in competition with the Soviet Union for both oil and non-fuel minerals. They have both in Siberia, but the technological development needed and the cost will make it prohibitive for some time to come. In response, the USSR is moving toward a policy of selective and strategic dependency on foreign resources as an alternative to the exceptionally high costs of extended self-sufficiency.

Add to this a growing trend in the Third World in which ownership and control of natural resources are changing from commercial to state dominance. This historic change provides the political environment for Soviet access to

Third World natural resources. Soviet support for state ownership and control in the Third World creates a potential for non-market state trading corporations through which the flow of minerals can be organized as barter. This expansion of non-commercial mineral resource control, combined with Soviet power-projection capabilities are the essential conditions of a Soviet access strategy in the Persian Gulf (oil) and Africa (minerals).

I have talked to you now about nationalism, terrorism, and resource constraints. There are a lot of other problems out there -- food, deforestation, desertification, water availability, and so on. But I'll stop with three.