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U.S. Multinationals in a World of Uncertainty

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U.S. Multinationals in a World of Uncertainty

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My topic today is "U.S. multinationals in a world of uncertainty." No one could possibly argue that the past three years haven't met the criteria for the old Chinese curse, "May you live in interesting times." This has been especially true for the American business community. Our multinational companies have been forced to contend with a severe financial shock, depressed demand, workforce and payroll cutbacks and rapid swings in commodity prices. And that's just the half of it. In industries like finance, politicians and the public at large have heaped scorn on CEOs and business executives and threatened massive changes to our financial markets and banking system. A lot of that ill-will has rubbed off on the business community as a whole. It's safe to say that public approval of business as a whole is at its lowest ebb in years.

The whole regulatory balance has shifted dramatically in recent years. In my organization, we used to debate with policymakers about <u>whether</u> a certain type of regulation would be wise and we stood for "business self-regulation." We still of course believe in that concept where appropriate, but understand that in the wake of the financial crisis, governments are much more active. Now we spend most of our time trying to ensure that they can get the balance right – that is, make sure that regulation is both smart and effective, and that it won't hamper innovation or U.S. competitiveness.

By and large, American multinationals have reacted to this situation by hunkering down, building their cash reserves, while all the while continuing to innovate and invest. In parts of the world like China and India, which did not experience the economic drop-off to the degree we did in the West, American companies have maintained robust operations and are well positioned to capitalize on continued growth in these regions.

So what are we to make of this mixed bag? Is the glass half empty, or half full? I believe that the worst of this economic downturn is behind us, and that the prospects for American business in the world at large are quite strong. But in a way, to make the most of the new opportunities before us, we and our leaders need to change the way we think about business and the global economy.

What I hope to accomplish here today is to illustrate some of the areas where American companies are not just making a profit, but also helping to build a better world. I hope also to dispel some of the myths about American business, and the global economy, and show why perhaps things aren't as bad as we've been led to think they are.

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First a few words about the organization I represent, the United States Council for International Business. USCIB is a private business association based in New York City. We were founded in 1945.

Who do we represent? About 300 major U.S. multinational companies and leading exporters, plus a variety of global law firms and industry associations. All told, our members have annual revenues of over $4 trillion and have business operations in nearly every country on earth.

What do we stand for? We promote *open markets, competitiveness and innovation, sustainable development and responsible business practices,* supported by international engagement and prudent regulation. We work primarily in the multilateral arena, interfacing with the United Nations, the OECD, the International Labor Organization and a host of other multilateral bodies in which we have some form of representation. In fact, the whole reason we are headquartered here in New York, as opposed to in Washington, is because the UN is here.

USCIB maintains a unique global network encompassing leading international business organizations that provide advocacy platforms to deliver business views to governments and intergovernmental organizations ("IGO"s). The best known of these is the International Chamber of Commerce, or ICC. Based in Paris, with a long history that dates back to its founding in 1919, ICC serves as the world business organization, with corporate members and national committees around the world. ICC also maintains the world's foremost court of international arbitration for the settlement of cross-border commercial disputes.

Our other international affiliates also play a leading role in representing business view to policy makers. The Business and Industry Advisory Committee to the OECD, known as BIAC, is the official private-sector advisory arm of the Organization for Economic Cooperation and Development, which coordinates policy among 34 leading advanced industrialized nations and advises non-member economies, such as China and India, to help them improve their economic performance. The International Organization of Employers, or IOE, the third led of our global network, performs a similar role in the International Labor Organization, helping to set employment and workplace standards worldwide, and promotes the role of the private sector and entrepreneurship in employment creation.

USCIB members actively utilize our network of policy committees to formulate business views in multiple areas – from trade policy to labor, from e-commerce to the environment – and to influence the course of legislation, regulation and policy in our country and around the world. As I mentioned, we are especially active in multilateral affairs, in the UN, the OECD, the ILO and a host of other bodies, and we consult with and advise the U.S. government on a range of global business and economic issues.

USCIB also provides a range of business services for exporters and companies operating overseas. The best-known of these is the ATA Carnet, which is what we call a "Merchandise Passport," that enables you to take product samples and professional equipment temporarily, for up to one year, into any of 75 countries around the world, without having to pay duties or taxes on entry.

USCIB is a strong partner of World Trade Week in New York, a series of pro-trade events each May that has been organized for the past several years by Baruch. We also hold periodic events and speaking engagements by major international figures that are open to anyone.

You can learn more about USCIB at our website, **www.uscib.org.**

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So, how are American multinationals coping with the fast-changing global landscape? How have they dealt with financial shock, major recessions in many countries including our own, increasingly strident anti-business rhetoric in many countries, and increasing calls for stricter regulations? And in the long term, how have multinationals viewed the rise of China, India and other emerging markets, as well as increasing attention to long-term challenges like global climate change?

In the case of my organization, I am proud to say that USCIB's members remain confident about America's – and American business's – role in the world. They are investing in new and better products and services, expanding their reach in many regions of the world, and deepening their commitment to the communities in which they operate.

One complicating factor in our work has been increasing skepticism about the merits of multilateralism. As I mentioned, we focus a lot of our energies on ensuring that governments get the regulatory balance right, that smart regulation doesn't become over-regulation. One of the best ways to do this is to engage leading multilateral institutions, in order to ensure the broadest possible buy-in among nations, and also to ensure that no one country exerts too much of an influence.

But in recent years, we've witnessed many instances of major multilateral bodies seemingly failing to get the job done. Whether it is WTO members' inability to conclude the long-stalled Doha trade round, or the UN failing to win agreement on a global climate pact in Copenhagen, the multilateral order established after World War Two appears to be stumbling.

Our leaders have been nimble enough to establish new institutions like the G-20 to deal with urgent matters like the financial crisis, and we are actively working with them so that the G-20 can support sustained global growth. But as the effectiveness of existing multilateral bodies is increasingly called into question, there is a tendency for countries to seek to solve problems on a bilateral or regional basis.

There's nothing intrinsically wrong with this approach, but we shouldn't overlook the benefits of multilateralism, which in the post-war world has done so much to support an orderly international system with increasing benefits for all participants. This is an area where my organization is working especially hard, given our expertise and our links to major global business organizations.

Despite the recent hard times, USCIB and its member companies have not wavered in our commitment to building a better world, in ways you may not expect. Let me give you some examples of how we are doing this.

First, jobs. Reacting to the onset of worldwide recession and the need for new jobs, last year we joined with the other members of the International Labor Organization in support of the Global Jobs Pact, the first truly global identification of labor and social measures to combat the economic crisis. The Global Jobs Pact clearly lays out the policy approaches governments need to pursue to support job creation by the private sector. The Pact met the challenge laid down for the ILO by G20 governments at their April 2009 London summit – to support employment by stimulating growth, investing in education and training and implementing effective labor market policies, while also focusing on the most vulnerable.

Second, climate change, perhaps the biggest challenge we face as a global society. For American business, reaching a clear, ambitious, inclusive and legally binding global agreement on climate change is a critical economic and environmental priority. While the UN's Copenhagen summit in December 2009 provided a basis for further work, much remains to be done to deliver the clarity, flexibility and enabling frameworks that business has long advocated. At the same time, investments in new technology and energy resources are crucial to meet the climate challenge and future energy demand.

That's why USCIB and the International Chamber of Commerce, which coordinated industry representation in Copenhagen, were extremely active both in preparation for and follow-up to Copenhagen. As the world looks to this December's UN meeting in Cancun and beyond, we in the business community are calling on governments to pay particular attention to economic and technological assistance measures, including finance mechanisms to facilitate transfer of climate-friendly technology, that can be agreed quickly and implemented swiftly to address the climate challenge.

Third, the future of the Internet. This is an area where there is actually a lot of action going on, largely below the radar screens of the general public. Our members know that innovation, like trade, is a two-way street: nations gain from free exchange and mutual openness to new ideas. Nowhere is this more evident than in the online space. But some countries would like to limit the future development of the Internet, or force some sort of governmental oversight onto it.

That's why we're working vigorously through the UN's multi-stakeholder Internet Governance Forum—or "IGF"—and in other international discussions to ensure that effective Internet-related policies continue to foster an environment that has enabled remarkable innovation and economic development. It's also why we helped organize and lead, through our affiliate BIAC, the Business Day component of the landmark 2008 OECD Ministerial on the Future of the Internet, in Seoul, Korea, where top government officials from around the world agreed on an action plan to make the Internet safer and more accessible, and to strengthen its role in driving economic development around the world.

A decade and a half ago, the Internet was still a "new thing" that we all had to learn to deal with. Today, it is a way of doing business, a way of communication, an underpinning of our society. We tend to take it for granted, but just think what would happen if it were suddenly "turned off"! The continued health of the Internet is critical to our economy and way of life, and that is why USCIB has been so active in organizing business leadership in this field.

Lastly, human rights. Through USCIB, companies are working hard to eradicate the scourge of forced labor and child labor from their supply chains. USCIB has actively lined up company support for the Better Work Program, a unique joint program of the ILO and the International Finance Corporation, the private-sector lending arm of the World Bank. The Better Work Program brings together governments, employers' and workers' organizations, and global companies to address conditions in supplier factories. It assesses compliance with international labor standards and national labor law, makes reports available online and provides targeted remedial training to improve an individual operation's compliance and competitiveness.

Last year alone, we were able to secure support for the Better Work Program from five top U.S. companies – Gap Inc., Levi Strauss & Co., Nike, Walmart and The Walt Disney Company – who collectively pledged to contribute more than $1 million to the program. We have also sought to educate executives on the growing business risks resulting from child labor and forced labor in supply chains, and how business can strengthen efforts to address these issues, through an ongoing series of private-sector forums.

In each of these four areas, and many more, American business is making real, sustained contributions to solving societal problems around the world. It's a record our members are and should be proud of. But often we feel as if companies are not getting the credit for the good work they do and the broad benefits they bring to society. Why is that? Well, that's what I'd like to explore in the rest of my remarks.

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Companies are getting blamed for a lot of things these days. Banks are castigated for loose lending practices that are said to have led to the financial crisis. Manufacturers are blamed for hording cash rather than hiring new employees. And everyone gets blamed for "outsourcing."

Right now, as Americans, we are living through a period of profound anxiety and uncertainty. You can see it in the campaign ads on the airwaves. We seek clarity and a return to what we imagine were the simpler, more secure days of yesteryear. And we often blame business when things go wrong. These days, though, we're not just blaming business, we're blaming global integration, indeed anything international.

The anti-globalization movement is nothing new. Its fundamental tenets, that deeper global integration fosters a zero-sum, race-to-the-bottom form of dog-eat-dog capitalism, was wrong when things were going well. And it's even more wrong when we're trying to lift ourselves, and our allies and trading partners around the world, out of the economic doldrums. And it's especially wrong when wedded to an emerging, and extremely worrisome, nativism in the United States and indeed many other countries.

To get back on the right track, we need to change the way we look at things. I want to give you two examples where what we think of as negatives are actually positives, where phenomena that we are conditioned to believe harm our economy actually help it.

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The first example concerns something you may be carrying in your backpack or handbags. If I could ask for a show of hands, please: How many of you own iPods? Or iPads, or iPhones, or any portable electronic device you listen to music on? The iPod is a marvelous way to think about the global economy that American business operates in.

When you turn over your iPod, like this one I hold right here, it says "Assembled in China." No surprise there. It also says "designed by Apple in California." OK, that's nice, I guess, if you're a designer. But what's the real story behind those two seemingly innocuous sentences?

If you're like a lot of people these days, the words "Made in China" may make you fearful. Outsourcing, lost jobs, trade deficit, undervalued currency, unfair competition, disloyal multinationals shipping American jobs overseas.

But is this all the iPod represents? Of course not.

In the old days, when countries traded, you could be pretty sure that what they sold came almost entirely from within their own borders. Russian wheat came from Russian farms. Bolivian copper came from Bolivian mines. American automobiles came from American factories, and were made from components also largely manufactured in America.

It's not that easy any more. In a recent speech, Pascal Lamy, the director general of the World Trade Organization, noted that, every time an iPod is imported into the United States, all of its declared customs value of $150 goes in the ledger as if it were an import from China, thereby contributing to the trade imbalance between our two countries.

But looking at the national origin of the added value incorporated in the final product, it's clear that a significant share takes the form of <u>re-importation</u> by the United States, with some additional value coming from Japan or Korea.

In fact, less than 10 of the 150 dollars in value actually comes from China. All the rest is just re-exportation. So in the case of the iPod, a revaluation of the Chinese currency – something a lot of people are calling for these days – would only have a modest impact on the sales price of the final product.

The results are rather similar if we look at employment and compensation. Another study cited by Director General Lamy estimates that on a global scale, manufacture of iPods accounted for 41,000 jobs in 2006, of which 14,000 were located in the United States, 6,000 of them professional positions. Since American workers are more highly qualified and better paid, they earned more than $750 million, twice as much as the $320 million that went to workers abroad.

Think of this another way. Who thought up the iPod? <u>We did</u>. (By "us," I mean Americans or those employed by an American company.) Who designed it? We did. Who constructed the cost-effective supply chain that enables an iPod to be manufactured and sold at an affordable price. Once again, we did. And who made the "software," the music and other intellectual property that we play on our iPods? Again, for the most part, we did.

And who buys it? <u>The world does</u>. What's more, many have argued that, without a globalized economy and all that means – open markets, reasonable shipping costs, integrated communications, efficient customs policies – you simply couldn't make an iPod at anything approaching a price people would be willing to pay.

Numerous studies have shown that, in the international marketplace, the innovating country earns most of the profits. But traditional trade statistics tend to focus on the last link of the chain, the one which ultimately earns the least. In short, because of the way we measure things, we are not getting the whole story, and in many cases we are basing our policy decisions on faulty information.

There are numerous other examples of innovative, world-beating American products and services that simply couldn't exist without an integrated global economy. And that's as it should be. After all, 95 percent of the world's customers are outside our borders. Year in and year out, international trade has accounted for about 25 percent of our gross domestic product, and about 20 percent of our jobs. We're the world's biggest economy, so why shouldn't we be out there trading and investing just like everybody else?

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There's another area where traditional ways of thinking about business fail to accurately describe how our economy and our population derive immense benefit from a phenomenon many policymakers assume is largely negative. That phenomenon is overseas investment by American companies.

To hear our politicians describe it, American multinational companies are stateless beasts that delight in "shipping jobs overseas." Especially as we emerge far too slowly from a wrenching recession, this is clearly having an impact. A recent Wall Street Journal/NBC News poll found that outsourcing was the top reason cited by Americans as the cause of the country's economic problems. The same survey found that, for the first time in years, a majority of Americans, 53 percent, believe that free-trade agreements have hurt the United States.

But when you really look at it, on balance, across the <u>entire</u> economy, the evidence clearly shows that multinationals as a whole are simply <u>not</u> engaged in the wholesale transfer of American jobs overseas.

In a study my organization commissioned with the Business Roundtable, released earlier this year, Professor Matthew Slaughter of Dartmouth University's Tuck School of Business sifted through the most recent data on multinational company operations from the U.S. Bureau of Economic Analysis—"BEA", part of the U.S. Department of Commerce.

His conclusion? Net/net, American multinational companies tend to create new and better-paying jobs here in the United States through their participation in the global economy. What's more, Professor Slaughter shows that the overseas operations of these companies complement <u>– rather than substitute for – domestic employment, employee compensation and investment.</u>

Slaughter's findings are convincing. He notes that U.S. multinationals outperform many other parts of the economy, making them truly our most competitive enterprises. With just 20 percent of overall domestic employment, multinationals provide 25 percent of our domestic output, 30 percent of capital investment, 45 percent of our exports and fully 75 percent of domestic R&D.

He also demonstrates that the additional jobs created here in the United States through trade and investment abroad tend to be high-paying, and require knowledge creation, capital investment and exporting. U.S. workers of American multinationals make on average about 20 percent more than their private sector counterparts. In dollar terms, that means these workers are bringing home an extra $10,000 every year on average.

This research also reveals that the worldwide operations of multinational companies are highly concentrated here in the United States, not in their overseas affiliates. The majority of their employment (69 percent), output (70 percent), capital investment (74 percent) and R&D (85 percent) take place in their domestic operations.

Slaughter writes: "We often hear that companies are shipping jobs overseas to low-income countries, but <u>the data does not support that argument</u>. Far from 'abandoning' the United States, as critics charge, worldwide American businesses <u>employ more than two workers in the United States for each worker employed at a foreign affiliate</u>."

This is really no surprise. An overseas affiliate serves as a magnet that increases U.S. exports, drawing goods and services from our shores to service both the country where the U.S. multinational has established itself and the surrounding countries as well. All this creates jobs back home, jobs that simply would not have existed without an on-the-ground presence by the company in question.

I emphasize that we didn't make these figures up. Professor Slaughter based his analysis on hard data collected every year by BEA, part of the U.S. Commerce Department. Economists agree that this data is the most reliable of its kind anywhere in the world. In fact, part of our motivation for publishing this study is to spur other countries to provide similar data for their citizens to review. Ours is not the only country where globalization has an image problem.

Slaughter notes that some 8.5 million jobs have been lost since the beginning of the recession in late 2007. "To fully recover from this recession and ensure long-term growth, our nation's top priority must be to create millions of jobs: and not just any jobs, but the high-paying, investment-and export-oriented jobs that worldwide American companies create. The best way to do this is to help our companies successfully tap into foreign markets."

Professor Slaughter's findings confirm what companies operating globally have long known. First, there are major opportunities for growth and exports in overseas markets. Second, to be close to your customers, you have to have a physical presence in these markets. And third, there is an integral, positive relationship between worldwide and domestic operations at U.S. multinationals, meaning that success overseas leads to greater success at home, including more and better jobs.

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These are just some of the ways in which the changing global landscape is changing the way American business <u>does</u> business. We obviously need to use all our creativity, all our smarts, to succeed in the modern world. I hope I've also demonstrated that <u>the way we think about ourselves</u> in the world economy may need to change as well.

Over the years, too many countries have sought exports at the expense of all else, pursuing mercantilist policies, or holding down the value of their currencies, or dumping under-priced products onto the world market. For the most part, and especially since World War Two, the United States has shunned this example, preferring to keep markets open for both imports and exports, and encouraging both inbound and outbound foreign direct investment. Everyone benefited, but because we were the largest market, we benefited the most.

Our country has grown and prospered over the years as the result of these policies. And we have succeeded in bringing other countries along with us, lifting entire populations out of poverty. But now we may be seeing a return to the "us versus them" policies of the past. I come back to this whole streak of nativism running through our politics, and that of many other countries.

We in business often rally against the evils of what we label "protectionism," but in fact that word itself has lost its value. When you come right down to it, most people want to feel "protected," so you can't really blame politicians for catering to that instinct. But business, and everyone else who benefits from trade, needs to push back, to show that we understand reality – the challenges and the tremendous opportunities of the modern world. We can't let ourselves be fooled into thinking the "protectionism" will "protect" us.

What we need is not just a new way of seeing the world, we need a new vocabulary. Or at least we need to revive one of the more potent words from our past to describe those who would erect new barriers to trade and investment, the movement of people and ideas around the world. Call them isolationists, <u>*economic isolationists.*</u> They're not out to protect anyone. They want to wall our country off from the world.

And as we have seen all too well, building walls is not a good way to run a society. This is a message that both business and political leaders must stand up and project more forcefully.

Thank you very much.

Peter M. Robinson

President and CEO

United States Council for International Business

Peter Robinson became USCIB's 15th president in April 2005. USCIB, founded in 1945, is a policy advocacy and trade services organization dedicated to promoting an open system of global commerce in which business can flourish and contribute to economic growth, human welfare and protection of the environment. As American affiliate of the leading international business organizations, including the International Chamber of Commerce, the International Organization of Employers, and the Business and Industry Advisory Committee to the OECD, USCIB provides business views to policy makers and regulatory authorities worldwide.

Mr. Robinson previously served as USCIB's Senior Vice President and Chief Operating Officer. Prior positions at USCIB included vice president for membership and manager of trade and transport policy. He helped establish some of USCIB's key practice areas, including e-commerce and customs/trade facilitation, and he has extensive experience with USCIB's global network of business affiliates.

Mr. Robinson has also had long-time involvement in the field of international education. He served as director of the inbound division at the American Institute for Foreign Study (AIFS), an international educational travel company, and was a member of the International Board of Trustees of AFS (American Field Service) Intercultural Programs from 1997 to 2004, following six years on the board of directors of AFS-USA. He was an AFS high school exchange student to Austria. He currently serves on the board of directors of NAFSA: Association of International Educators, a member organization promoting international education and providing professional development opportunities to the field.

A Certified Association Executive, Mr. Robinson holds a bachelor's degree in international relations and German from the University of Delaware (1977) and studied at the University of Vienna on a Rotary International Scholarship. He received his master's degree from Columbia University's School of International Affairs (1979). He is a member of the Economic Club of New York and the Presidents Council of the Council on Competitiveness, and a Fellow of the Foreign Policy Association. In 2007, Mr. Robinson was appointed to the Trade and Environment Policy Advisory Committee (TEPAC) to the United States Trade Representative. He is also a member of the board of directors of WAND, Inc., a global B2B directory technology company.

Mr. Robinson lives in Fairfield, Connecticut. He and his wife Kristin have two daughters and a son.

Credits

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