The Global Century

A Source Book On U.S. Business & The Third World

Acknowledgments

As is often true in projects of this magnitude, a number of people have been involved. This book is the product of several people within our organizations. We would particularly like to single out David Cohen and Peggy Sheehan for their leadership, and J. Donald Looper, who served as the principal author and editor.

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FOREWORD

The slowing of global economic growth in the 1980's raised questions about the future of Third World countries as markets for the United States, as competitors for American business, and as debtor nations still seriously affected by hunger, poverty, underdevelopment, and political unrest.

Perceptions of developing countries as both an opportunity and a threat have engendered mixed feelings among American businessmen concerned about their own ability to compete with low-cost producers abroad. On the one hand, developing countries are viewed as a burden to industrial countries and a permanent supplicant for U.S. aid. On the other hand, there is fear that any advancement by Third World countries will be won at the expense of American industry and agriculture.

The developing countries do indeed present a paradox: Hunger and poverty alongside growing economic strength. Neither aspect can be denied or ignored in a world where finance, communications, and technology are increasingly international and nations increasingly interdependent. The trend toward economic globalism is so rapid and so pronounced that the choice remaining to Americans is not whether to accept it but how to live and do business in the new environment.

The purpose of this Source Book is to provide corporate and cooperative officials, local business and community leaders, writers, editors, speechmakers, and other communicators with a ready reference to Third World issues and trends important to American business. It was prepared as part of a project funded by a grant from the Agency for International Development as authorized by Public Law 96-533. Congress, in that Act, directed AID to undertake a Development Education Program to help the American people better understand the seriousness of hunger and poverty in nations making up three-fourths of the world's people.

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CONTENTS

CHAPTER SUMMARIES

Part I. THE CHANGING WORLD OF BUSINESS

Chapter 1: The Global Century. A new theme among observers of the economic scene is that the "American Century" is now giving way to the "Pacific Century" or the "Asian Century." As the year 2000 approaches, much commentary focuses on the relative decline of American economic power. But if it is true that American world dominance is diminishing, it is just as true that no other nation is powerful enough to assume global leadership by itself. The world is moving instead toward a new era of interdependence among nations -- toward a new worldwide market fed by rapid change in technology, communications, manufacturing, trade, investment, and finance. Hence it is more appropriate to think of the next hundred years as the "Global Century."

Chapter 2: The Global Challenge. The idea of a Global Century requires that U.S. policymakers and business leaders think in terms of an international business community that reaches far beyond the two dozen industrial nations that have occupied the most U.S. attention over the past 300 years. Western Europe and Japan no longer offer the potential demand growth that they have provided since World War II. Three-fourths of the world's people -- and a disproportionate share of human needs -- reside in the developing countries of the so-called Third World. Economic integration has sharply altered U.S. relations with those countries, and the evidence is that the future of American business is linked to economic growth in the Third World.

Part II. THE EMERGENCE OF A THIRD WORLD

Chapter 3: Defining the Third World. The concept of a separate world of developing countries came out of decolonization following World War II. The term "Third World" was first used by a French demographer in 1952, and it is now used synonymously with "developing" and "less developed." Also used to distinguish nations by development levels is the term "North-South." The Bureau of the Census defines 45 countries as "developed" and 163 as "developing." The Newly Industrializing Countries (NIC's) are included in the latter group although they are believed by many to be too far advanced for that category. There is also argument as to which countries should be considered NIC's, although most agree on the "Four Tigers" or "Four Dragons" of East Asia.

Chapter 4: Measuring Development. The criteria commonly used to define developing nations are per capita income, percent of labor force in primary industries (usually agriculture), and per capita consumption of inanimate energy. In low income countries, agriculture accounts for almost a third of gross national product and employs almost three-fourths of the labor force. But as agriculture is improved, the stage is set for industrial growth. A rise in farm productivity enables rural communities to provide raw materials, labor, and markets for industry. Economic growth, accompanied by increased use of mechanical power, creates demand and stimulates domestic production and trade. And the country becomes a cash customer for the world's products.

Chapter 5: Third World Snapshot. The developing countries represent a wide range of economic situations, but the general characteristics are rapid population growth, low income levels, inadequate health care and educational programs, and high levels of hunger and malnutrition. Developing countries, already home to 76 percent of the world's people, are projected to increase in population by 28 percent by year 2000. Meanwhile, hunger and malnutrition affect hundreds of millions of people, mostly as a result of poverty. Economic growth rates, generally strong in the 1970's, fell sharply in the early 1980's. Most economies have now improved somewhat, but external debt in some countries remains a critical Third World problem.

Part III. U.S. TIES TO THE THIRD WORLD

Chapter 6: Third World Countries as Aid Recipients. The U.S. is historically the largest provider of economic aid to developing countries, although Japan may be taking over that role. U.S. annual funding amounts to $1.5 billion to multilateral agencies and $6.5 billion in bilateral (country-to-country) assistance including $1.5 billion in food aid. American business benefits directly because 70 percent of U.S. aid money is spent for goods and services from this country. American farmers benefit because food aid provides an immediate outlet for surplus products and creates new commercial markets for the future. U.S. aid to the Third World has diminished in relative importance as U.S. private trade and investment have grown.

Chapter 7: Third World Countries as Customers. Over the past decade, developing countries have provided a market for about one-third of all U.S. exports. All product categories shared in these sales, but the largest were machinery and transport equipment, agricultural products, and chemicals. Sales to the Third World are closely related to economic growth trends and debt problems in those countries. U.S. exports to developing countries fell 19 percent in the 1981-83 recession period and showed little recovery until 1987, when sales jumped 16 percent to $81.7 billion. Because of the reversal in Third World business, the United States in 1980-87 lost an estimated 1.7 million jobs that already existed or could have been created.

Chapter 8: Third World Countries as Suppliers. Thirty-five percent of U.S. imports come from developing countries -- $150 billion in 1987. Two-thirds of these imports are manufactured goods, the sector most often viewed as a competitive threat to the U.S. economy. Since the 1960's, Third World manufacturing has grown more rapidly than that of developed countries, in both production and exports. It is argued, however, that U.S. imports from the Third World are less of a threat to American jobs than is the loss of U.S. exports to those countries. In fact, studies show that trade with the Third World has resulted in net job gains for developed countries. Still, Third World trade practices have often been the target of U.S. complaints.

Chapter 9: U.S. Investment in the Third World. American companies have more than $60 billion invested in Third World countries -- roughly a fourth of their total investment worldwide. Foreign investment by U.S. firms has become a political and labor relations issue, with opponents arguing that multinational companies are "exporting jobs." The multinationals contend, however, that overseas investment enables them to protect markets abroad and thus they are better able to expand manufacturing and create jobs at home. American overseas facilities are a magnet for parts and components made in this country. Thus U.S. overseas ventures produce benefits for the U.S. economy as well as rewards for investors.

Part IV. FUTURE OPPORTUNITY IN THE THIRD WORLD

Chapter 10: Potentials for Market Growth. Developing countries are potential growth markets for American business because of expanding populations, the potential for a rise in living levels based on present low levels of consumption, and the likelihood of renewed economic growth following a period of slow growth in the 1980's. In 12 years, Third World populations will have grown by one-fourth and will comprise 80 percent of the world's consumers. In contrast, population growth will be slow in developed countries, and virtually static in Western Europe. Meanwhile, a speedup in Third World economic growth, according to some projections, could recreate the growth era of the 1970's. New trends toward privatization are also encouraging.

Chapter 11: Barriers to Market Growth. Obstacles to market growth in developing countries include the continuing debt problem, protectionism in both developing and developed countries, and internal policies that limit trade and development in some Third World countries. A combination of measures by creditor and debtor nations averted the total economic collapse that was widely feared early in the 1980's, but external debt has continued to grow and by the end of 1987 stood at $1.2 trillion. Third World trade issues are receiving greater attention in the Uruguay Round than in previous GATT negotiations. Meanwhile, it is argued, Third World barriers are often overstated and should not deter American enterprise.

Chapter 12: Choices for Americans. Two dynamics are evident as the Twentieth Century draws to a close: (1) American business is operating in an economic system that is now global. (2) Developing countries make up a large and growing part of that system. These forces challenge U.S. government and business to help shape this new and enlarged international system and profit from the opportunities there. It is increasingly recognized that countries and companies that benefit from newly-created Third World markets will be those who participate during the development process. The U.S. still holds tremendous global advantages. It may have lost its dominant position in the world economy, but it need not lose its leadership.

PART V. CASE STUDIES

Rice: Jamaica
Telephone Systems: China/New Guinea
Aviation: Africa
Export Management: China/Latin America
Rotary Compressors: Korea

Cosmetics: Asia/Latin America
Poultry: Dominican Republic
Industrial Cranes: China
Construction: Egypt
Yarn Testing Equipment: 50 Countries

Part I. THE CHANGING WORLD OF BUSINESS

Chapter 1. The Global Century

Chapter 2. The Global Challenge

CHAPTER 1: THE GLOBAL CENTURY

A Pacific Century?

Americans who do business with the energetic and enterprising nations of Asia -- among them recently-retired Ambassador to Japan Mike Mansfield -- have predicted that the next hundred years will be the "Pacific Century" or the "Asian Century." Implicit in this idea is an assumption that the "American Century" -- so named by publisher Henry Luce before World War I -- is coming to an end.

A number of recent studies have discussed the relative decline of U.S. economic power. A 1987 book by Yale historian, Paul M. Kennedy became a best seller in the U.S. and Japan with its thesis that U.S. economic power is declining in favor of Japan.[1] Japan trade expert Clyde Prestowitz also won wide attention with a book arguing that failed U.S. trade policies enabled Japan to take over as the leading economic power in the world.[2]

Business editor Joel Kotkin, and trade consultant Yoriko Kashimoto, published a book outlining what they called the "new dynamics of the world economy and the place of American business within it." Fundamentally important, they say, "is the realization that the Atlantic Community, long the center of world economic power, is being supplanted by the nations of Asia and the Pacific Rim."[3]

C. Fred Bergsten of the Institute for International Economics wrote in 1988 that "World economic power has become more widely diffused and American hegemony is gone forever."[4] John W. Sewell of the Overseas Development Council wrote that: "The United States remains a great economic power. But many Americans perceive the United States

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[1] Paul M. Kennedy, The Rise and Fall of the Great Powers, Random House, 1988.

[2] Clyde Prestowitz, Trading Places: How We Allowed Japan To Take the Lead, Basic Publishers, 1988.

[3] Joel Kotkin and Yoriko Kashimoto, The Third Century: America's Resurgence in the Asian Era, Crown Publishers, 1988.

[4] C. Fred Bergsten, America in the World Economy: A Strategy for the 1990's, Institute for International Economics, November 1988, p. 62

to be irreversibly losing that power, not only to Japan and Germany, but also to a number of developing countries."[5]

The Far Eastern Economic Review was more explicit and perhaps less objective: "The financial world is delicately poised between the era of U.S. dominance and the age of Japan."[6]

Economic Globalization

One can argue, as Bergsten does, that no other country has the power to take over as "a new hegemon." The U.S. remains the strongest single country, with enough veto power to block the initiatives of others. "But collective action, by at least a small group of the most important actors, is now required to achieve positive changes in international economic policies and arrangements," according to Bergsten.[7] New economic power is evident in the European Community, Japan, OPEC, the Asian NIC's, and some Latin American countries, but none is ready to assume global leadership.

If indeed the age of economic hegemony is over, it would appear most realistic to think of the future in terms of the globalization that is already underway -- rather than the loss of U.S. economic power to another country or group of countries. The next century will be neither an "Asian Century" nor a continuation of the "American Century." It will be the first "Global Century."

Market Interdependence

America now does business in a global market, and so does every other nation of consequence. Politicians may at times long for a more tidy world of closed borders, self-sufficiency, and traditional economies frozen in time. But in fact, advances in technology, information, resources, and finance have pulled the cork, and the global genie is forever out of the bottle. The evidence is everywhere:

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[5] John W. Sewell, Stuart K. Tucker, and Contributors, U.S. Policy and the Developing Countries: Growth, Exports, and Jobs in a Changing World Economy (Agenda 1988), Transaction Books, 1988, p. 3.

[6] Nigel Holloway. "More Action than Acumen," Far Eastern Economic Review, December 15, 1988, p. 51.

[7] C. Fred Bergsten, America in the World Economy: A Strategy for the 1990's, Institute for International Economics, November 1988, p. 61.

* Financial markets are global. In 1987 an average $420 billion moved through the world's financial exchanges every day.[8] A three-day flow of that magnitude is larger than the U.S. Federal budget or the entire external debt of the Third World.

* Investment is global. U.S. direct investment abroad exceeds $300 billion, and foreign direct investment in the U.S. exceeds $260 billion. Foreigners hold $1 trillion in liquid assets in this country, a fourth of that in U.S. Federal debt.

* Manufacturing is global. Overseas production by U.S. corporations approaches $500 billion a year. A Ford car assembled in England and West Germany has components produced in 10 other countries on three continents -- truly a product of "the global factory."[9]

* Commerce is global. U.S. exports and imports of goods and services in 1988 equaled 22 percent of gross national product -- double the share traded a quarter century ago. U.S. manufacturers export almost a fourth of their output. In normal times, U.S. agriculture exports the produce of two cropland acres out of five.

* Technology is global. Fifty pounds of fiberglass transmit as many phone messages as a ton of copper. Synthetics replace steel. Microelectronics and satellites support global communications networks enabling a manager to control factories on the other side of the globe. Research in ceramics, superconductors, and biotechnology flows readily across borders, creating what is now being called a "Third Industrial Revolution."

Globalism is Irresistible

Such rapid and enormous changes can be ignored only at a nation's peril. As Fred Bergsten points out, "The overwhelming message of market globalization is that living standards of countries that seek to resist the tide will decline relative to others, and

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[8] Estimate, Morgan Stanley & Co., Forbes, August 22, 1988, p. 69.

[9] World Development Report 1987, World Bank, p. 38.

perhaps even in absolute terms. The benefits of global markets are simply too great to forego, especially when one's neighbors and competitors take advantage of them."[10]

The President's Task Force on International Private Enterprise, at the end of a major study in 1984, concluded that technological change is hastening the evolution of local and regional markets into global markets. "Competition in the U.S. marketplace is no longer national, but international. American businesses that adapt to changing circumstances and recognize opportunities will prosper; those that do not will, at best, survive temporarily at a cost to themselves, the U.S. consumer, and U.S. relations with friendly nations."[11]

The Global Century is here.

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[10] C. Fred Bergsten, America in the World Economy: A Strategy for the 1990's, Institute for International Economics, November 1988, p. 61.

[11] President's Task Force on International Private Enterprise, Report to the President, December 1984, p. 90.

CHAPTER 2: THE GLOBAL CHALLENGE

The idea of a Global Century requires that American policymakers and business leaders look, not only beyond American borders, but beyond the industrialized countries that make up the western world and traditional U.S. trading partners. For over three centuries, American traders and investors looked to Western Europe. Then, in this century, World War II and the subsequent conflicts in Korea and Indochina brought Japan and a few other Asian markets into the U.S. economic orbit, and trade with Asia now exceeds trade with Western Europe.

Now, the decline in U.S. trade in the 1980's has forced a rethinking of American economic interests abroad. It is now evident that traditional U.S. markets in Western Europe and Japan no longer promise the growth they provided in the 25 years following World War II. For future growth in trade, the United States must look more broadly to the developing countries that already account for three-fourths of the world's people and promise most of the future growth in demand.

Acknowledging the Third World

This is not to say that West European countries and Japan will not continue to be important as trading partners. But, if American business people are to reap full advantage in a global economy, more attention must be paid to Third World countries -- not just on moral and humanitarian grounds but also on grounds of mutual economic advantage.

The importance to U.S. business of renewed economic growth in the Third World is now widely recognized. Victor H. Palmieri, chairman of the Palmieri Company and chairman of the Overseas Development Council, summarizes: "If the United States is to expand exports to improve its trade balance, provide jobs for American workers, and deal with its own debt problem, decision-makers in the public and private sectors must give much higher priority to U.S. policies that support resumed growth with equity in the countries of the Third World."[12]

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[12] John W. Sewell, Stuart K. Tucker, and Contributors, U.S. Policy and the Developing Countries: Growth, Exports, and Jobs in a Changing World Economy (Agenda 1988), Transaction Books, 1988, p. ix.

Ambivalence Toward the Third World

There is, of course, no single Third World, and this is a source of confusion and ambiguity in American attitudes. A country such as Ethiopia or Bhutan, with a per capita GNP of $150 or less and economic growth of almost zero, is a far different problem from the "Four Tigers" or "Four Dragons" of Asia -- Korea, Taiwan, Hong Kong, and Singapore, with per capita GNP between $2,000 and $7,000. Developing countries thus may inspire fear and compassion, respect and resentment, optimism and hopelessness, all at the same time.

American generosity is well-known, and surveys have shown that Americans also have an appreciation of the interdependence of U.S. and Third World economies. In a 1987 public opinion survey for the World Policy Institute, 78 percent of respondents said they believed that improved economies in other countries would lead to improvements in the U.S. economy. In a 1986 public opinion survey commissioned by Interaction and the Overseas Development Council, 74 percent believed that the U.S. economy was affected "a great deal" or "somewhat" by the economies of the Third World.[13]

On specifics of trade, however, survey respondents were less positive. In the Interaction/ODC study, 66 percent of respondents said the United States should restrict imports from developing countries until the trade deficit is lowered. Ironically, 87 percent agreed "strongly" or "somewhat" that "we should help farmers in other countries learn to grow their own food, even if it means that they buy less food from the U.S." The latter view, by the way, is not widely shared in the American farm community.[14]

American Business: Its Stake

A 1988 survey of small business owners by Arthur Andersen & Company found weak support for U.S. foreign aid. Sixty-five percent of respondents cited foreign aid as an area where Federal spending should be reduced, followed by welfare (56 percent) and

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[13] Christine Contee, "Report on a Survey Conducted by the Strategic Information Research Corporation for Interaction and Overseas Development Council," 1986.

[14] E. A. Jaenke & Associates, Third World: Customers or Competitors? A Source Book on Agricultural Development and Trade, Washington, D.C., 1987.

defense spending (49 percent). "Small business owners, in general, do not perceive their companies gaining much benefit from expenditures in these areas," the survey reported.[15]

Many other studies, however, have concluded that the future of American business is definitely linked to economic progress in developing countries. The President's Task Force on International Private Enterprise advised in 1984, that the Third World offers the potential for larger U.S. markets and pointed out that those countries accounted for most of the growth in American exports in 1975-80 and "thus for a significant share of the new jobs created in U.S. manufacturing firms during this period."[16]

Michigan State University, in a 1988 policy paper, observed that few Americans "are aware of the degree to which (economic) interdependence includes the developing countries." It added that, "as we approach a new decade, growing interdependence means that the U.S. has an increasing stake in a healthy global economy, in which the Third World plays a significant role."[17]

Shaping the Future

The U.S. private sector has a unique opportunity to help shape a global economy that will sustain the values of enterprise and economic freedom that this nation supports--and to benefit in the process. Future markets will be served by those countries and companies that are on the scene during the development stage, establishing their firms and products in the emerging economies.

That fact is not lost on other industrial countries. In 1987, the Japanese government pledged to recycle up to $30 billion in the form of untied public and private funds to developing countries through multilateral banks and agencies. Japan traditionally has

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[15] "Results of the 1988 Arthur Andersen & Co. Small Business Survey," November 1988, p. 2.

[16] President's Task Force on International Private Enterprise, Report to the President, December 1984, p. 88.

[17] Ralph H. Smuckler, Robert J. Berg, David Gordon, New Challenges, New Opportunities: U.S. Cooperation for International Growth in the 1990's, Michigan State University, 1988, p. 8.

concentrated on assistance to developing countries in Asia, but in recent years has increased grants to Sub-Saharan Africa.

The development of markets in poorer countries requires patience, tenacity, and time. The National Cooperative Business Association found this to be true when it set up a subsidiary -- Cooperative Business International -- to serve as an international trade representative. Patience, hard work, and salesmanship were required, both at home and abroad, before CBI began to bear fruit. But, according to NCBA, it has been worth the effort.

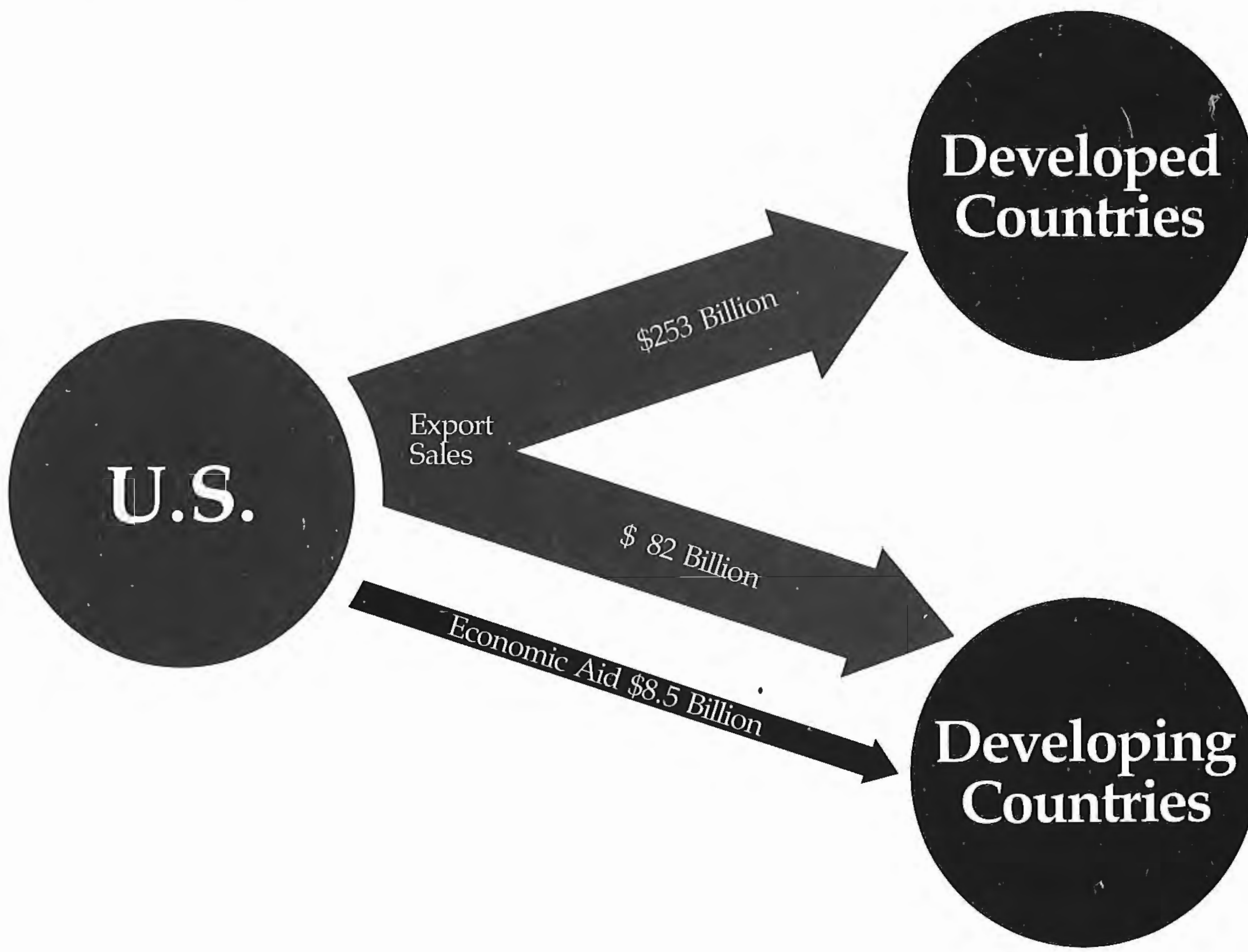
Abandoning Cliches

A realistic U.S. response to the global market challenge will recognize the changed nature of economic relationships with countries that include three-fourths of the world's people, two-fifths of the land area, and a disproportionate share of human needs and problems. Rapid and accelerating change in Third World countries dictates that other countries think beyond the "charity" and "dependency" cliches that have hampered U.S./Third World relations in the past.

Truly, the "aid mentality" no longer applies. U.S. annual export sales to the Third World far exceed the amount of official economic aid now being sent to those countries -- by a factor of almost 10 to 1. The current level of U.S. direct private investment in those countries is also much larger than annual aid expenditures -- by 7 to 1. [See Figure 1]

Rapid integration of the global economy has forever altered relations between the United States and developing countries. Aid retains its traditional role as a tool of development and a direct weapon against hunger and human suffering. Increasingly as well, aid is an integral part of a wider fabric of public and private interests that comprise the global market and the global challenge.

Figure 1—U.S. Economic Aid To Developing Countries Compared With Commercial Exports To Developed And Developing Countries, 1987.



Part II. THE EMERGENCE OF A THIRD WORLD

CHAPTER 3: DEFINING THE THIRD WORLD

The Origin of 'Third World'

The concept of a separate world of "underdeveloped" or "less developed" countries grew out of decolonization following World War II. Before that time, colonies and territories were identified with their parent countries and thought of as wards or dependencies of those more advanced nations.

With the rapid passing of the colonial system, created over centuries but dissolved within a couple of decades, it became apparent that half of humanity was seriously impoverished and that the other half could not escape the consequences. The new nations had to be taken account of -- morally and economically, but also politically and strategically.

In Africa, for example, only six sub-Saharan countries were independent before 1960. Today 46 sub-Saharan countries are independent and members of the United Nations.

The term Third World was coined by a French demographer, Alfred Sauvy, in 1952 and used at the landmark Conference of Afro-Asian countries in Bandung, Indonesia, in 1955. It became the title of a book and the name of a new journal in France and by the end of the 1950's was being used by French and other media to refer to the less developed countries of Asia, Africa, Oceania, and Latin America.

Third World Terminology

Third World is now used more or less synonymously with a number of other terms used to identify low and middle income nations as different from the industrial economies and the industrial nonmarket (Communist) countries. These terms include underdeveloped, less developed, developing, and nonindustrialized -- terms that have spawned a number of sub-groups including middle income countries (MIC's) and newly-industrializing countries (NIC's).

In the 1960's, the "Group of 77" came into use as a term for developing countries. The original 77, which grew to more than 100, were the countries that attended the first United Nations Conference on Trade and Development (UNCTAD) in Geneva in 1964. The term Group of 77 or G-77, most often used in connection with efforts to promote Third World causes within the United Nations, never came into general use.

Another, still less precise, term is "North-South," a label given currency by the Independent Commission on International Development -- the so-called Brandt Commission chaired by former West German Chancellor Willy Brandt. The Commission's final report was published in 1979 under the title, "North-South: A Program for Survival." It identified North and South as "broadly synonymous with 'rich' and 'poor,' 'developed,' and 'developing'."[18]

The Commission acknowledged, however, that "there are obvious objections to a simplified view of the world as being divided into two camps. The 'North' includes two rich industrialized countries south of the equator, Australia and New Zealand. The 'South' ranged from a booming half-industrial nation like Brazil to poor landlocked or island countries such as Chad or the Maldives."

The World Divided by Development Levels

The Bureau of the Census, U.S. Department of Commerce, classifies 208 countries and territories as follows: The "developed" countries and areas include all of North America and Europe, as well as the Soviet Union, Japan, Australia, and New Zealand, while the "developing" countries and areas include all of sub-Saharan Africa, Near East and North Africa, Latin America and the Caribbean, Asia (except Japan), and Oceania (except Australia and New Zealand). Under this classification, 45 countries or areas are developed and 163 are developing.[19]

Department of Commerce trade statistics divide the world nations somewhat differently, however, as "developed," "developing," and a third category -- "centrally planned economies." The latter group includes China and the USSR, along with Eastern Europe, Cuba, North Korea, and a few other small countries. The U.S. Department of Agriculture trade data follow a similar pattern but use somewhat different terminology. USDA refers to "more developed countries" and "less developed countries," commonly shortened to "LDC's" by scholars and development professionals.

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[18] North-South: A Program for Survival, the Report of the Independent Commission on International Development Issued Under the Chairmanship of Willy Brandt, the MIT Press, 1980, p. 31.

[19] Bureau of the Census (Department of Commerce), World Population Profile: 1987, p. vi.

The World Bank lists only populations of 1 million or more, but identifies 96 as "developing" countries. The United Nations divides up the world as "less developed" and "more developed." The World Bank and the United Nations include China in their lists of "developing" or "less developed" countries and the Soviet Union as a "developed" or "more developed" country. So does the Population Reference Bureau, a private agency widely quoted on demographic subjects.

For discussion purposes, there is no significant difference between the terms used to define developing countries, so long as it is clear how China and the Soviet Union are treated in a given set of statistics. China is generally considered a developing nation, but most official U.S. trade statistics include it with the USSR and other Communist countries.

Newly Industrializing Countries (NIC's)

A number of Third World countries are considered by many to be so far advanced they should no longer be thought of as developing. These are the Newly Industrializing (or Industrialized) Countries (NIC's), situated in the top rank of developing countries in terms of economic development and industrialization. In many ways these nations are more similar to Japan than they are to the poorer countries of Africa, Latin America, and Asia.

There is also a lack of agreement as to what countries should be categorized as NIC's. The World Bank, for example, lists Brazil, Hong Kong, Mexico, South Korea, and Singapore but does not include Taiwan because it officially does not consider that island to be independent from the People's Republic of China. Other authorities consider those six countries to be NIC's but may include others such as Argentina, Malaysia, Thailand, Philippines, Chile, Iran, Iraq, Panama, Venezuela, and Syria (sometimes called "second tier" or "peripheral" NIC's.)

There is general agreement, however, on the expression "East Asia NIC's," referring to South Korea, Taiwan, Hong Kong, and Singapore, also known as the "Four Tigers" or the "Four Dragons."

For research purposes, some economists use a very broad interpretation based mainly on income. Others exclude from the NIC category countries that do not have a diversified industrial infrastructure. By that measure, such countries as Iran, Malaysia, and Argentina would not qualify even though they might meet the income criteria.

However the NIC's are defined, most international economists still group them in the developing category. The NIC's are viewed as still in the process of development with many still dependent on assistance and capital transfers from the industrialized nations. Nevertheless, some of the most advanced NIC's are beginning to be treated differently from other Third World countries -- for example, the loss by some of special trade preferences formerly granted by the United States (See Chapter 8).

CHAPTER 4: MEASURING DEVELOPMENT

Developing nations are commonly defined by one or more of the following measures: (a) Per capita income or gross national product, (b) Percent of labor force engaged in primary activities, usually agriculture, and (c) Per capita consumption of inanimate energy, indicating the degree to which economic activity has shifted away from human and animal power.

Income and GNP

The World Bank uses per capita GNP as its principal criterion, although there is some overlapping between groups. It currently defines low-income developing countries as those with 1986 GNP per person of $425 or less. Middle-income developing countries have per capita GNP of $426 or more. But the division separating those countries from the industrial market economies is less well defined. Hong Kong and Singapore are developing countries with per capita GNP around $7,000, while Spain and Ireland are considered industrial market economies, with per capita GNP around $5,000.

Within developing countries, the World Bank identifies 17 of them as "highly indebted countries" because of their debt servicing difficulties: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cote d'Ivoire, Ecuador, Jamaica, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, and Yugoslavia.

Primary Industries

In developing countries, the primary industries typically account for a large percentage of economic product and employ a large proportion of the labor force. In 1986, several countries at the low end of the income scale still depended on agriculture for around half of their gross domestic product, with the average at 32 percent for low income countries. For middle income developing countries the average was 15 percent.[20]

In most of the industrial market economies, agriculture accounted for less than 10 percent of gross domestic product, and the average was only 3 percent. The United States and West Germany were the least agricultural with only 2 percent of their GDP coming from agriculture.

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[20] World Development Report 1988, World Bank, p. 226.

Similar divisions are evident in the labor force. The low income economies averaged 72 percent of their labor force in agriculture in 1980, with several African and south Asian countries above 90 percent. Middle income developing countries averaged 43 percent of their work force in agriculture, and the industrial market economies averaged only 7 percent. At the low end were the United States with 4 percent and Belgium with 3 percent.[21]

Energy Consumption

A hallmark of the Industrial Revolution was the shift away from dependence on human and animal power. The degree to which an economy is able to supply inanimate energy, either domestic or imported, is an indicator of the application of modern technology. Energy consumption is highly indicative of the level of economic activity, closely paralleling GNP from country to country.

The United States, industrialized and highly dependent on the automobile, consumed in 1986 the equivalent of 7,193 kilograms of petroleum on a per capita basis. Only the far-north industrial nations, Canada and Norway, consumed more commercial energy. Latitude is also a factor in energy use in southern climates, but even so the dramatically low energy consumption in the low income countries is evidence of underdevelopment, closely paralleling gross national product. In 1986, per capita consumption in low income nations averaged only 314 kilograms of commercial energy, oil equivalent. The average was 883 for the middle-income developing nations.[22]

The Development Process

In many industrializing nations, the growth in manufacturing coincides with higher productivity in agriculture. Paradoxically, as farm productivity is increased, new off-farm growth causes economies to become relatively less dependent on agriculture. In South Korea, for example, agriculture accounted for only 12 percent of gross domestic product in 1986, compared with 38 percent in 1965.

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[21] World Development Report 1988, World Bank, p. 282.

[22] World Development Report 1988, World Bank, p. 240.

It works like this: As the productivity of agriculture is increased, a country's ability to support an urban industrial population rises. Rural communities provide a market for industrial goods and supply the agricultural raw materials needed in industry. As less labor is needed in agriculture, new workers entering the labor force increasingly look for employment in manufacturing and industrial and urban services.

Demand grows throughout the economy, stimulating domestic production and also trade. Surpluses provide commodities for export and help to pay for the imports increasingly demanded by a population growing in affluence. Economic growth is thus accompanied by increased use of mechanical and electrical power, and a shift away from dependence on agriculture. Health, education, and social services improve, and the developing country becomes a cash customer for the world's products.

Typically, such a country will even increase imports of agricultural products, at the same time its own agriculture is becoming more productive.

CHAPTER 5: THIRD WORLD SNAPSHOT

Population

The Population Reference Bureau estimates that 77 percent of the world's people live in less developed countries (including China). Moreover, 93 percent of world population growth in the next dozen years will take place in those countries. Less developed countries are projected to grow from 3.913 billion people in mid-1988 to 4.911 billion in the year 2000 and 6.716 billion in 2020 -- increases of 25 percent and 71 percent over 1988.[23]

Two nations -- China and India -- account for almost half of the population of developing countries. They make up 37 percent of all humanity. India, Pakistan, and Bangladesh are projected to grow rapidly in the final years of this century. China and Indonesia have significantly lowered their population growth rates, as Japan did in earlier years. By the year 2000, Asia's population will grow by a fifth; Latin America by a fifth, and Africa by 42 percent.

Population densities in many urban areas are major elements in Third World demography, contributing to poverty, housing shortages, and a lack of arable land. Third World cities are expected to absorb most population increases in coming years. By the year 2000, almost all of the world's very largest cities will be in developing countries, including such huge metropolises as Mexico City, Sao Paulo, Calcutta, and Bombay.

Health and Education

The differences in health care are striking between developed and developing countries. Average life expectancy at birth is 61 years in developing countries, compared with 76 years in industrial market countries. Developing countries in 1981 had one physician for every 5,690 population and one practicing nurse for every 3,230. In contrast, industrial market economies had one physician for every 550 people and one nurse for every 180. The United States ratios were 500 and 180 respectively.

Education has improved substantially in the Third World over the past quarter century, and enrollments at the primary level are about equivalent to those in the industrial

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[23] "World Population Data Sheet," Population Reference Bureau, 1988.

world. But secondary school enrollments -- 39 percent of the age group in 1985 -- are well below the 93 percent reported for industrial countries. And only 8 percent were enrolled at levels beyond high school, compared with 39 for industrial countries as a group and 57 percent for the United States.[24]

Economic Growth and Recession

Economic growth was generally strong in developing countries throughout the 1960's and most of the 1970's. From the late 1970's through 1983, however, the aggregate annual growth rate of developing countries declined sharply, and external debt became a problem that continues to be severe. The 1980-83 average growth rate was only 1.6 percent compared with 5.8 percent annually in 1969-79. The years 1982 and 1983 marked the trough of the recession, with 1984 bringing the beginning of recovery.[25]

A major factor in Third World recession was a sharp decline in the real prices of primary commodities in the face of reduced demand and overproduction. Economic growth had slowed in industrial countries, and many of those countries had expanded production behind the protection of subsidies and trade restrictions. Developing countries, too, had expanded production in response to the high prices of the early 1980's.

Patterns of recession and recovery varied widely among countries. Latin America suffered the greatest decline in total output, compounded by foreign debt and debt servicing problems. African and Middle Eastern countries also experienced negative growth. Developing countries in Asia, however, were able to maintain respectable growth because economic policies were more resilient and they were able to adjust to higher oil prices without foreign borrowing. (See Chapter 11 for information on Third World debt.)

Natural Resources

Developing countries contain more than 60 percent of the world's land area and just over half of the land now under cultivation. They encompass slightly more than half the

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[24] World Development Report 1988, World Bank, p. 280.

[25] Stuart K. Tucker, "Testimony, before the Subcommittee on International Economic Policy and Trade, Committee on Foreign Affairs," U.S. House of Representatives, Washington, Sept. 29, 1988.

world's forests (2.3 billion hectares). The availability of firewood and clean water is a serious problem in many of the poorer nations.

Environmental issues are increasingly important in developing countries, as they are in the industrialized world. Economic development in any country will have environmental side effects, and these may be exacerbated by poverty, rapid population growth, and lack of education. The World Resources Institute points out that commercial energy consumption in the developing world has risen during the past two decades. "And it is expected to continue to rise because of the comparatively low level of per capita consumption in these countries and the likelihood of further major increases in population."[26]

The principal Third World environmental concerns, based on data from the World Resources Institute:

* Air pollution. In 1983, developed countries accounted for three-fourths of emissions from fossil fuel consumption. Developing regions, however, registered the most rapid growth -- 10.7 percent annually in 1950-83 compared with 5 percent for developed regions.

* Soil and water. Soil erosion is especially severe in the large river basins of Asia, damaging water supplies and potentials for food production. The WRI estimates that every year the Yellow River carries 1.6 billion tons of soil to the sea, the Ganges 1.5 billion tons.

* Deforestation. Rates of deforestation in Latin America, Asia, and Africa are such as to severely threaten living conditions for millions of people and other living creatures. In 1981-85, for example, Cote d'Ivoire (formerly the Ivory Coast) was being deforested at the rate of 6.5 percent a year. In Nigeria, a country twice the size of California, the loss rate was 5 percent. Paraguay, Costa Rica, and Nepal were being deforested at annual rates of 4 percent or more.

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[26] World Resources 1986, World Resources Institute, p. 104.

Food and Agriculture

Agriculture is the largest industry in most Third World countries, employing most of the labor force and providing a large part of the national product. Many developing countries have experienced rapid growth in agricultural production since the 1960's, based in large part on new wheat and rice varieties developed as part of the Green Revolution. Others, especially in Africa, have benefited scarcely at all from these improvements. And in most developing countries, large numbers of people remain hungry and malnourished.

In the past 30 years, agricultural output worldwide has increased at nearly twice the rate of earlier periods. Nevertheless, hundreds of millions of people remain without enough food, a paradox that has long been a source of misunderstanding in economic development. "On the one hand," according to the World Bank, "it has led to a sense of hopelessness about the world's malnourished -- on the other, to technological overconfidence. Overanxiety about food crises has alternated with taking agriculture for granted, even neglecting it."[27]

Hunger and Malnutrition

Estimates vary, but the problems of chronic hunger and malnutrition remain enormous in developing countries. The number of people affected by these problems probably has not diminished greatly in the last half century.

Forty years ago, President Truman said in his inaugural address that "more than half the people of the world are living in conditions approaching misery."[28] By that measure, some 850 million people were suffering from inadequate food, poverty, disease, and primitive and stagnant economies. Truman called for a new program of technical assistance that came to be called "Point Four" because it was the fourth point in a series of Truman proposals -- the others long forgotten.

In 1967, the President's Science Advisory Committee quoted FAO estimates that "at least 20 percent of the population of the developing countries is undernourished and about 60

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[27] World Development Report 1982, World Bank, p. 40.

[28] Harry S. Truman, Inaugural Address, January 20, 1949.

percent receive diets that are inadequate in nutritional quality."[29] By that measure, close to a billion people were nutritionally deprived.

At the time of the world food scare of 1974, the number of hungry and malnourished people was widely referred to by media and specialists as "a half billion." That number appears not to have diminished greatly since 1974 despite the goal of the UN World Food Conference that year, which was to eliminate world hunger within a decade.

World Hunger Today

The FAO now estimates that between 450 and 500 million people suffer from hunger and malnutrition. Other organizations see the problem as larger in scope, based on different definitions and methodology. The Overseas Development Council estimates that at least 750 million people live in absolute poverty. The World Bank, in a paper published in 1986, estimated that "some 34 percent of the population of the developing world -- excluding China -- still does not eat sufficiently well to lead an active, working life -- and nearly half of these are barely subsisting on a minimum survival diet."[30] By that World Bank estimate, 730 billion people did not have enough food.

These estimates refer to chronic hunger and malnutrition, apart and distinct from emergency food problems caused by drought and other natural disasters or war and political displacement, such as the famines in Ethiopia and other African countries in the 1980's. Chronic Third World hunger is closely related to poverty, having little to do with any global shortage of food. As Secretary of Agriculture Richard Lyng told a National Press Club audience in 1988, "The fact is that there is not really a shortage of food in the world. There's a shortage of money."[31]

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29 "World Food Problem: A Report of the President's Science Advisory Committee," The White House, 1967.

30 Poverty and Hunger: A Publication Summary, World Bank, March 10, 1986, p. v.

31 Richard Lyng, Secretary of Agriculture, Speech, Washington, D.C., June 1, 1988.

Part III. U.S. TIES TO THE THIRD WORLD

CHAPTER 6: THIRD WORLD COUNTRIES AS AID RECIPIENTS

The United States is the largest provider of economic aid to developing countries, although reports from Tokyo indicate that Japan may be taking over that role. U.S. economic assistance to developing countries totaled $8.4 billion in fiscal 1988 -- between 25 and 30 percent of the official development assistance provided by members of the Organization for Economic Cooperation and Development. But this is only one-fourth of 1 percent of U.S. GNP -- by this measure one of the smallest contributions among donor countries.

This country's economic assistance to developing countries has substantially diminished relative to U.S. private business involvement with those countries. Official U.S. economic assistance is now only one-tenth as large as annual U.S. exports to Third World countries. Annual aid expenditures are equivalent to less than 15 percent of U.S. private investment in those countries.

U.S. Assistance Programs

U.S. aid moves through both multilateral and bilateral mechanisms. Multilateral funding -- about $1.5 billion -- provides cash grants and guarantees to the multilateral development banks and to agencies of the United Nations. U.S. bilateral country-to-country funding -- $6.5 billion in fiscal 1988 -- flows from four categories:[32]

(1) Development Assistance to promote equitable economic growth. Funding: $1.7 billion.

(2) Economic Support Fund to promote economic and political stability in regions where the U.S. has significant security interests. Funding: $3.3 billion.

(3) The Public Law 480 program (Food for Peace) to combat hunger, encourage development, and expand markets for U.S. farm products. Funding: $1.5 billion.

(4) The Housing Guaranty Program to secure funds from private U.S. capital markets for improved housing in borrower countries. Funding (non-appropriated): $150 million.

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[32] Development Issues 1988: U.S. Actions Affecting Developing Countries, The 1988 Annual Report of the Chairman of the Development Coordination Committee, U.S. International Development Cooperation Agency.

Economic Development Assistance

Modern development assistance stems from the Foreign Assistance Act which Congress passed in November 1961, creating the Agency for International Development. Since 1981, AID's major emphasis has been on the economic policies of developing countries, the role of the private sector in those countries, and the development of markets. The slowing of economic growth at the end of the 1970's had disclosed major policy weaknesses in those countries, and AID began to deemphasize major project development in favor of increased emphasis on the economic policies to increase project effectiveness and restore equitable economic growth.

AID defines the general objective of development assistance as promoting economic stability in nations where it is lacking, laying the foundations for sustainable economic growth, spreading the benefits of growth as widely as possible, strengthening democratic institutions where they exist, and helping create them where they do not. Specific development goals center on income growth, increased caloric intake, improved primary school attendance, reduced infant and child mortality rates, and helping developing countries gain control of currently unmanageable population pressures.[33]

U.S. labor and industry benefit directly from overseas development assistance because these programs operate under a "buy America" policy similar to the policies of other donor countries. More than 80 percent of the $2 billion in AID contracts around the world are with U.S. firms. An estimated 70 percent of U.S. aid money is spent for goods and services that come from the United States.

Food Aid (P.L. 480)

Since 1954, most official American food assistance has been carried out under the umbrella of the Agricultural Trade Development and Assistance Act of 1954, commonly known as Public Law 480 or Food for Peace. Three food aid programs operate under P.L. 480: (a) Long-term concessional sales under Title I, (b) foreign donations through private voluntary organizations under Title II, and (c) "food for development" under Title III, which allows a recipient country to buy U.S. commodities on concessional terms, resell them within the country, and use the proceeds for development.

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[33] Expanding Freedom's Frontiers: Foreign Aid in the 1980's, U.S. Agency for International Development, February 1987, p. 7.

More than 100 countries received P.L. 480 shipments in fiscal 1988. Commodity shipments totaled about $1.5 billion, with wheat and wheat products accounting for three-fourths of the value. The U.S. provided 65 percent of the total cereals shipped as food aid from all sources, estimated by the Food and Agriculture Organization at 10.5 million tons. Other donors were the European Community, Canada, Japan, and Australia.

A Relative Decline in Food Aid

P.L. 480 shipments have sharply declined over the years as a percentage of total agricultural exports. Dollar expenditures have remained relatively stable since the program began in the mid-1950's -- mostly in a band between $1 billion and $2 billion. But with the rise in agricultural exports over the years, the P.L. 480 share of the total has greatly declined.

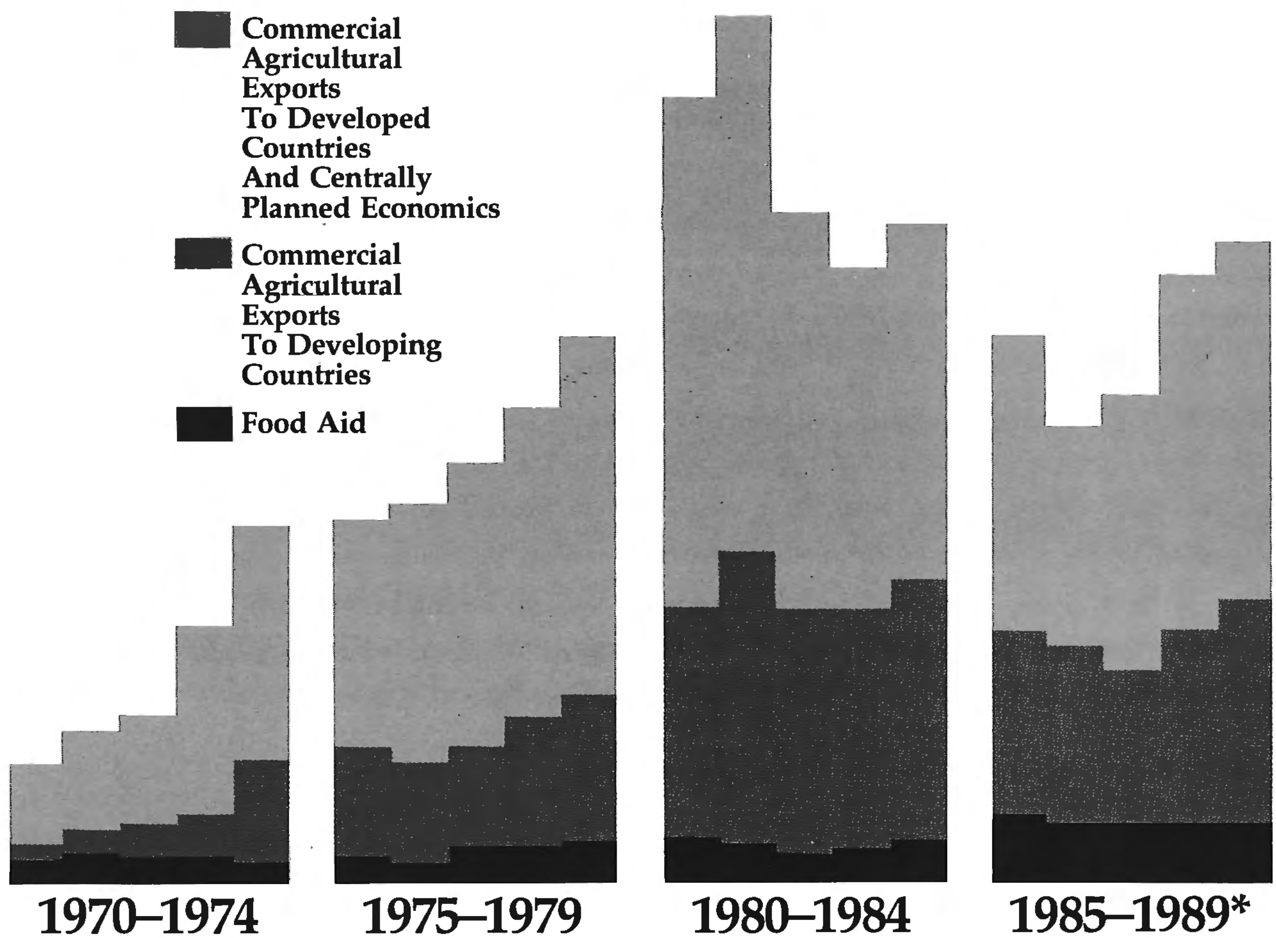
In the early 1960's, when total farm exports were around $5 billion or less, as much as one-third went abroad as food aid. Since the middle 1970's, however, food aid shipments have in most years accounted for 5 percent or less of the value of farm product exports. In 1988, food aid shipments accounted for less than 5 percent of farm product exports to all destinations and 15 percent of farm product exports to the Third World.

Support for Food Aid

P.L. 480 has generally received strong support from Congress and the public because of its humanitarian goals and its role in providing outlets for U.S. surplus farm production and thus benefiting American farmers. P.L. 480 planning includes detailed provisions to avoid any possibility that food aid might displace U.S. commercial exports or undermine domestic farm markets in the recipient countries.

Analyses by USDA and AID officers at the American Embassies involved and by an interagency committee in Washington are intended to assure that P.L. 480 agreements meet their objectives and avoid harm to U.S. markets or to domestic farm industries abroad. Each P.L. 480 country agreement includes a development plan specifying how proceeds will be used to strengthen the local economy. USDA marketing economists assess the impact on U.S. trade. [See Figure 2]

Figure 2—U.S. Food Aid As A Share Of Total Farm Product Exports, 1970–1989.



CHAPTER 7: THIRD WORLD COUNTRIES AS CUSTOMERS

Over the past decade, Third World countries have provided a market for about one-third of all U.S. exports. In 1987, U.S. sales to those countries totaled $81.7 billion -- 32 percent of total export sales of $252.9 billion. Sales to developing countries showed an increase that year of 16 percent, compared with a 9-percent increase to developed countries. (These are Department of Commerce figures that do not include China, the Soviet Union, and other "centrally planned" economies.) [See Figure 3]

The largest U.S. exports to developing countries were machinery and transport equipment, agricultural products, and chemicals, but all major product categories shared in those markets. Machinery and transport equipment sales amounted to $34.8 billion. Chemical products brought $9.6 billion in sales. Agricultural exports to the developing countries, according to USDA data, totaled $11.5 billion -- 41 percent by value of all American farm product exports.

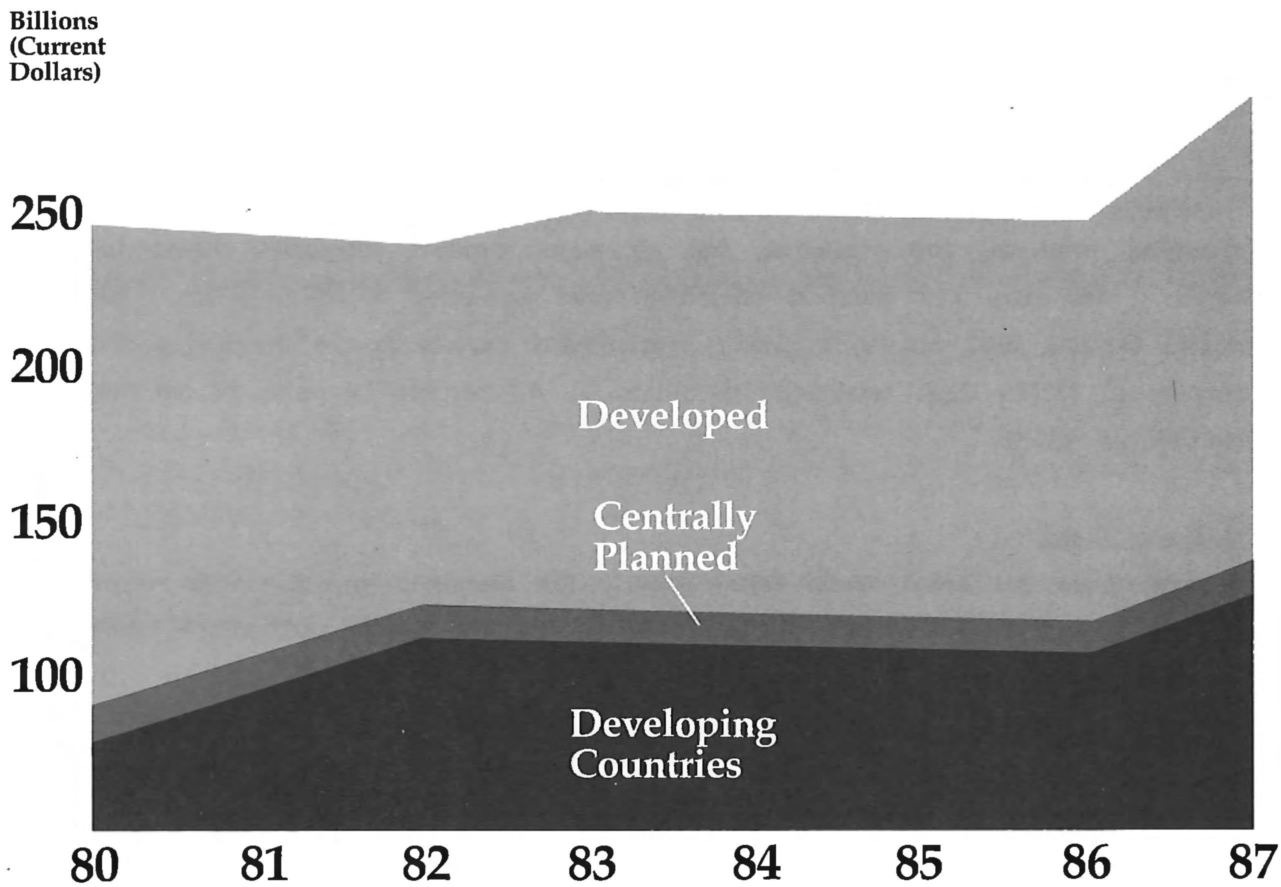
The Export Trend

U.S. exports to the Third World follow closely the economic growth trends recorded in those countries. U.S. exports declined sharply in the early and middle 1980's as purchasing power in those countries was reduced by debt-service problems, declining commodity prices, and the global recession. U.S. exports to industrial country markets also declined in those years, but the impact on Third World markets was substantially greater.

Between 1981 and 1983, U.S. exports to developed countries fell by 9 percent, but exports to developing countries declined by almost 19 percent. Exports to developed countries also recovered more rapidly, with the result that in 1987, the developing countries accounted for only 32 percent of U.S. total exports, compared with 37 percent at the beginning of the decade.

By 1987, however, the Third World market was recovering more rapidly. Sales to those countries in 1987 showed a gain of $11 billion or 16 percent over the preceding year. This compares with increases of only 9 percent in sales to developed countries and 12 percent in exports to the centrally planned category.

Figure 3—U.S. Exports to Developing Countries Compared With Developed And Centrally Planned Countries, 1980–1987.



Source: U.S. Department of Commerce

Regional Trade Developments

U.S. exports to Mexico, South America, Africa, the Middle East, and China declined between 1981 and 1987, primarily as a result of recession and debt problems in those areas. Exports increased substantially to the East Asia NIC's (Taiwan, Korea, Hong Kong, Singapore) and were up slightly to other Asian developing countries and the Caribbean. The U.S. trade balance deteriorated in trade with Mexico, South America, and the Asian developing countries, but improved somewhat with Africa, the Middle East, and the Caribbean.

Regional highlights in U.S. trade with developing countries (from U.S. Department of Commerce data):[34]

Mexico. U.S. exports to Mexico fell 18 percent from 1981 to 1987 while imports soared nearly 50 percent. The result was a $10 billion shift in the trade balance, from a $3.8 billion surplus to a $5.9 billion deficit.

South America. The U.S. trade balance with South America shifted from a $1.2 billion surplus in 1981 to a deficit of $8.8 billion in 1987. During this 1981-87 period, exports fell 26 percent and imports gained 32 percent. This export-import differential largely reflects the LDC debt crisis.

Caribbean Basin. The U.S. trade balance with the Caribbean Basin improved sharply in the 1981-87 period, from a $3.9 billion deficit to a $357 million surplus. This reflected a decline in U.S. imports, with exports generally stable at around $6 billion throughout the period.

East Asia NIC's. The U.S. trade deficit with the East Asia NIC's more than quadrupled in the 1981-87 period, from $7.0 billion to $37.7 billion, as exports grew 56 percent to $23.5 billion and imports almost tripled to $61.3 billion.

China. The U.S. trade balance with China shifted from a $1.5 billion surplus in 1981 to a $3.4 billion deficit in 1987 as imports increased while exports declined. U.S. imports

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[34] Department of Commerce (International Trade Administration), 1987 U.S. Foreign Trade Highlights, 1988.

grew from $2.1 billion to $6.9 billion while exports decreased from $3.6 billion to $3.5 billion.

Other Asian Developing Countries. The U.S. merchandise trade deficit with the other Asian developing countries widened from $5.8 billion in 1981 to $7.9 billion in 1987. Exports increased less than $100 million from 1981 to 1987 while U.S. purchases increased $2.1 billion during this same period.

Middle East. The U.S. trade deficit with the Middle East improved from 1981 to 1987, from a $4.6 billion deficit in 1981 to a $2.1 deficit in 1987; however, the balance was in surplus in 1982-85. Over the entire period, exports fell $5.5 billion from $15.0 billion in 1981 to $9.5 billion in 1987, while imports fell $8.0 billion, from $19.6 billion to $11.6 billion.

African LDC's. The merchandise trade deficit with the African LDC's narrowed from $17.6 billion in 1981 to $6.3 billion in 1987 as imports declined more than exports, by $14.3 billion versus $3.0 billion.

Third World Imports and U.S. Jobs

Third World debt and recession had a severe impact on U.S. employment in the 1980's. Stuart K. Tucker, Fellow at the Overseas Development Council, has estimated that the United States lost 1,774,000 jobs as a result of the decline in exports to developing countries, 1980-87. He blamed that factor for 26 percent of total U.S. unemployment in December 1987.

Almost half of this loss in U.S. jobs -- 860,000 -- is attributed to the decline in exports to Latin America. "About half of these jobs once existed in 1980. The other half could have been created had U.S. exports continued to grow at the trendline pace of the 1970's," according to Tucker. "About three-quarters of these jobs were lost due to poor performance of manufacturing industries. However, agricultural exports to Latin America have also suffered, being 42 percent lower in 1987 than in 1981."[35]

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[35] Stuart K. Tucker, "Testimony Before the Subcommittee on International Economic Policy and Trade, Committee on Foreign Affairs," U.S. House of Representatives, Washington, D.C., Sept. 29, 1988.

These job losses were widespread throughout the United States, but heavier in southern states and cities, Tucker reported. "Port customs regions such as Los Angeles, Houston, New Orleans, and Miami are the most dependent upon trade with developing countries, especially trade with Latin America." Poor performance of U.S. exports to all developing countries resulted in job losses of well over 200,000 for each of Texas and California and over 100,000 for Florida. [See Table 1]

Estimated State Job Losses Due to the Decline of Exports to Developing Countries 1980-87

STATE	Est. Job Losses# 1987 (thousands)	Percent of Labor Force Dec. 1987	Percent of State Unempl. Dec. 1987	Estimated Job Losses State's Range Low	High
Alabama	25	1.3%	19%	18	37
Alaska	12	4.9%	50%	6	16
Arizona	40	2.4%	43%	20	48
Arkansas	17	1.5%	19%	12	25
California	224	1.6%	33%	112	281
Colorado	64	3.7%	55%	27	97
Connecticut	6	0.3%	11%	3	28
Delaware	2	0.6%	21%	2	3
Dist. of Col.	*	n.a.	n.a.	*	*
Florida	121	2.0%	41%	60	181
Georgia	50	1.6%	30%	25	76
Hawaii	2	0.4%	10%	1	3
Idaho	5	1.1%	14%	3	7
Illinois	42	0.7%	11%	21	83
Indiana	20	0.7%	12%	10	40
Iowa	32	2.3%	40%	23	47
Kansas	42	3.4%	66%	18	63
Kentucky	22	1.3%	18%	17	34
Louisiana	34	1.7%	16%	25	50
Maine	1	0.2%	5%	1	6
Maryland	28	1.2%	28%	23	42
Massachusetts	12	0.4%	15%	6	56
Michigan	34	0.8%	9%	17	68
Minnesota	17	0.8%	12%	9	34
Mississippi	13	1.1%	11%	10	20
Missouri	39	1.5%	24%	29	58
Montana	1	0.3%	3%	1	2
Nebraska	24	3.1%	63%	10	36
Nevada	5	0.9%	13%	2	6
New Hampshire	2	0.3%	15%	1	9
New Jersey	30	0.8%	21%	15	45
New Mexico	3	0.4%	5%	1	4
New York	58	0.7%	16%	29	128
N. Carolina	58	1.8%	42%	29	87
N. Dakota	3	1.0%	17%	1	6
Ohio	43	0.8%	13%	21	86
Oklahoma	41	2.6%	43%	21	76
Oregon	22	1.6%	26%	11	29
Pennsylvania	89	1.5%	30%	75	134
Rhode Island	1	0.2%	5%	1	7
S. Carolina	33	2.0%	42%	16	49
S. Dakota	2	0.6%	12%	1	3

STATE	Est. Job Losses# 1987 (thousands)	Percent of Labor Force Dec. 1987	Percent of State Unempl. Dec. 1987	Estimated Job Losses State's Range	
				Low	High
Tennessee	31	1.3%	21%	23	47
Texas	248	2.9%	43%	104	372
Utah	7	0.9%	16%	4	9
Vermont	1	0.3%	9%	*	4
Virginia	42	1.4%	38%	35	63
Washington	81	3.6%	47%	40	107
W. Virginia	5	0.7%	6%	3	10
Wisconsin	19	0.8%	12%	9	38
Wyoming	1	0.4%	6%	*	1
U.S. Total	**1174**	**1.5%**	**26%**	---	---

- Job losses include foregone potential job creation as well as actual losses.
* - Less than 500 jobs.

Source: Calculated by Stuart K. Tucker, Testimony, September 29, 1988.

CHAPTER 8: THIRD WORLD COUNTRIES AS SUPPLIERS

U.S. imports from the Third World are as varied as the morning coffee, the family car, and the fuel to keep it running. But Americans have uneasy feelings, borne out by surveys, that U.S. aid programs are harmful to American business because they lead to import competition from the Third World.

Thirty-five percent of all U.S. imports come from developing countries -- about $150 billion in 1987. The excess of imports over exports generates a U.S. negative trade balance with the Third World -- $68 billion in 1987 or 40 percent of the overall U.S. trade deficit.[36]

Consider, however, that $33 billion of that deficit was accounted for by petroleum imports, and another $7 billion was coffee, rubber, and other tropical farm products not produced commercially in this country. The U.S. also looks to the Third World for important quantities of strategic materials; the U.S. imports 99 percent of its manganese, 96 percent of its bauxite/alumina, and 95 percent of its cobalt.

If petroleum and non-competitive farm items are set aside, the trade deficit with the Third World shrinks by $40 billion. The real trade deficit with the Third World is a $36 billion imbalance in manufactured products, which is partially offset by U.S. trade surpluses in farm products, chemicals, and some other items.

Industrialization in the Third World

Since the 1960's, Third World manufacturing has grown more rapidly than that of developed countries, both in output and in exports. In 1985, developing countries had over 18 percent of world production, compared with 14.5 percent in 1965. The developing countries' share of manufactured exports rose from 7.3 percent to 17.4 percent in those 20 years.

The World Bank points out that in 1965 no developing country could count itself among the top 30 exporters of manufactured products. By 1985, however, two Third World

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[36] 1987 U.S. Foreign Trade Highlights, U.S. Trade Data, U.S. Department of Commerce, Washington, D.C., 1988.

economies -- Hong Kong and South Korea -- were in the top 15, with export shares close to Sweden and Switzerland. Two others -- Singapore and Brazil - were in the top 20, with export shares close to Denmark and Finland.

Third World manufacturing is also becoming more sophisticated. According to the World Bank, "Developing countries have diversified from traditional labor-intensive products (such as textiles) or those based on natural resources (such as crude petrochemicals, cork, and paper) to chemicals and engineering products."[37]

In those Third World countries that now challenge the developed world, production and trade have evolved far beyond the old pattern through which industrial countries exported manufactures to the developing countries in exchange for primary commodities. Today, the reverse is often true: A developing country may export manufactures and import primary commodities. Korea, for example, exports automobiles to the United States and imports U.S. grain and other farm products.

Third World Countries as U.S. Competitors

Competition from low income countries is sometimes viewed as a threat to the American standard of living. Large populations working for pennies under substandard conditions are seen as undermining the American labor force and jeopardizing higher wage levels hard won over generations by U.S. industrial workers and farmers.

Actually, Third World competition is not primarily from low income countries but rather from a half dozen newly-industrializing countries (NIC's). Over half of Third World manufactured exports to the United States come from "the Four Tigers" (Korea, Taiwan, Hong Kong and Singapore) and Brazil.

U.S. critics of Third World competition often overstate the importance of the labor component in imported products and understate wage levels in the offending countries. The composition of Third World industrial exports has changed, with traditional labor-intensive products such as shoes and textiles giving way to higher technology products such as chemicals and electrical equipment.

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[37] World Development Report 1987, World Bank, p. 46.

It is true that in the 1980's the U.S. received a growing share of Third World exports, primarily because the U.S. was expanding as a market and other developed countries were not. Even so, University of Texas economist Ray Marshall contends that "most of the U.S. job losses linked to trade with Third World countries have been due to a loss of exports, not to an inordinate surge in imports."[38]

Pluses from Third World Competition

Two-way trade generates economic activity on both sides, and Marshall points out that U.S. trade with the Third World has generated large employment gains in U.S. high-value-added sectors while reducing employment in low-value-added sectors such as apparel, leather, wood, food, and paper products.

Marshall cites studies showing that trade between developed and developing countries has resulted in net job gains to developed countries. In these studies, the United States tended to fare less well than other developed countries, apparently because the U.S. has suffered greater export declines in its Third World trade. Nevertheless, according to Marshall, ". . .the evidence clearly shows that North-South trade in fact results in job gains. Therefore policymakers need to develop strategies for increasing North-South trade while at the same time ameliorating the localized dislocations, thus maximizing the overall gain for the United States and developing countries."[39]

Others point out that U.S.-Third World trade figures are sometimes distorted by the international character of manufacturing today. In many cases, "foreign competition" may actually be competition from American-owned and operated companies doing business in other countries. In 1985, for example, U.S. companies in Japan manufactured and sold $80 billion worth of products in that country, but very little of this value showed up as American exports. By the same token, autos made in Japanese-owned factories in this country are not counted as U.S. imports.[40]

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[38] Ray Marshall, "Jobs: The Shifting Structure of Global Employment," Growth, Exports, and Jobs in a Changing World Economy (Agenda 1988). Sewell, Tucker, and Contributors, Overseas Development Council, p. 185.

[39] Marshall, p. 51.

[40] Survey of Current Business, June 1987, p. 33.

Countering Unfair Trade

The United States has taken action on several fronts to improve the competitive situation with developing countries as well as with other trading partners. It has brought pressure, bilaterally and in the GATT, to change trade practices that this country considers unfair. U.S. negotiators have sought to end human rights violations in foreign industries. They have used bilateral pressure to halt the counterfeiting of U.S. products and the piracy of U.S. brands and designs, and are also seeking to strengthen GATT rules covering violations of intellectual property rights.

The U.S. Congress and trade agencies have been especially aware of competition from the East Asia NIC's. As of 1989, the United States has "graduated" Korea, Taiwan, Hong Kong, and Singapore from Generalized Special Preferences (GSP) -- a program through which the U.S. since 1976 has granted duty-free status to imports of certain products from developing countries. This U.S. action was prompted by the growing trade deficit with those countries. GSP remains in effect for about 3,000 products from more than a hundred poorer Third World countries -- a program to assist development by encouraging "trade not aid."

CHAPTER 9: U.S. INVESTMENT IN THE THIRD WORLD

Private Investment in the Third World

American companies now have more than $60 billion invested in Third World countries -- roughly a fourth of their total investment worldwide. U.S. private investment in the Third World rose from $36.5 billion in 1975 to $55.7 billion in 1980, fell off somewhat in the early 1980's, but by 1986 had climbed to $61.6 billion. More than half of this investment is in Latin America, with another one-fourth invested in Asian countries.

The United States is the largest source of private direct investment in developing countries, providing about half the total flow from industrialized countries. The United Kingdom and France are the two other traditional sources, but their relative importance has declined as Germany and Japan have significantly boosted their direct investment in developing countries.

Foreign investment by U.S. business firms has emerged in recent years as a contentious issue in U.S. politics and labor/management relations. The issue has been especially acute in the automobile industry, where companies have expanded overseas operations to produce components for assembly in the United States.

The Anti-Investment View

Opponents of overseas investment, including major labor unions, have focused on this "runaway plant" argument contending that multinational companies are "exporting jobs" and that this should be opposed by U.S. official policy. This practice, it is argued, is eroding the industrial base of the United States. The U.S. should therefore discourage such operations through tax policy and Federal restrictions on plant closings.

One of the most prolific spokesmen for this view is Sol C. Chaikin, President of the International Ladies Garment Workers Union since 1975, who wrote: "In short, unrestricted trade and investment do not benefit the majority of American workers or employers who depend on the domestic market, nor do they benefit the majority of people in the developing nations. They serve neither American strategic nor political interests."[41]

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[41] Sol C. Chaikin, Foreign Affairs, Spring 1982, p. 849.

The Pro-Investment View

The multinationals argue that overseas investment is necessary to maintain competitiveness and protect markets abroad. Because of this, they contend their companies are better able to expand manufacturing and create jobs at home. Far from eroding the industrial base, they say their companies are actually leaders in domestic manufacturing growth. Hence Federal restrictions would damage the U.S. economy.

Management consultant Peter Drucker argues that U.S. exports are increasingly dependent on U.S. foreign direct investment, pointing out that three-fourths of the resulting production is sold to foreign markets. "It is simply not possible to maintain substantial market share in an important area unless one has a physical presence as a producer." Drucker predicted that world investment will probably grow faster than world trade.

"By now," Drucker estimates, "about one-fifth of the total capital invested in U.S. manufacturing firms is in facilities outside the U.S. In addition, a similar portion of the output of U.S. manufacturing industries is being produced offshore. Three-quarters of the output is for sale abroad and one-quarter is for export back to the U.S., to be sold or incorporated into goods for the American market. Major American commercial banks and major brokerage firms have a similar proportion of their assets invested abroad and derive an even larger proportion of their total business through their foreign branches."[42]

Benefits to the U.S. Economy

A number of studies have addressed the question as to whether U.S. employment and manufacturing output have been reduced or increased by overseas investment, whether exports have been lost or enhanced, and whether the industrial base has been weakened or strengthened. Analysts have examined the motivation for overseas projects, the domestic performance of the companies involved, and the question of cost competitiveness.

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[42] Peter Drucker, "From World Trade to World Investment," Wall Street Journal, May 26, 1987, p. 32.

Theodore H. Moran of Georgetown University concludes: "The results of all these approaches point in the same direction: A large part of U.S. investment overseas acts as a magnet, actually drawing exports of parts, components, and other subproducts and services out of the United States to those overseas plants. Of the rest, a large fraction goes to preserving a position in an existing market that would be lost if the operations were kept at home."[43]

Rewards to the Investor

Thomas L. Brewer of Georgetown University writes that rewards can be substantial for entrepreneurs who can find the opportunities and manage the problems of operating facilities in developing countries. "The rate of return on operations in developing countries is often much higher than in industrial countries," he writes.

In 1981, for example, U.S. firms earned about 20 percent on their investments in developing countries, and their returns averaged 15 percent in the following year, even though these were recession years around the world. A study of returns on U.S. investments in fourteen developing countries covering more than a decade found that the rate of returns on investments in ten of the developing countries was greater than in the U.S. -- more than 10 percent greater in several cases. Another study found that U.S. firms' joint ventures in India enjoyed an average increase of 20 percent per year in their after-tax profits.

"Furthermore, diversifying operations into countries outside the United States or other industrial countries can reduce the aggregate risks for your firm. Since business cycles in individual developing countries are not perfectly correlated with U.S. cycles, you can partially alleviate the impact of cyclical downturns in the U.S. economy."[44]

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[43] The U.S. Economy and Developing Countries. Briefing Papers for Candidates, Overseas Development Council, 1988, Section 5.

[44] Thomas L. Brewer, Kenneth David, Linda Y. C. Lim, Investing in Developing Countries: A Guide for Executives, Lexington Books, 1986, p. 8.

Part IV. FUTURE OPPORTUNITY IN THE THIRD WORLD

CHAPTER 10: POTENTIALS FOR MARKET GROWTH

Third World countries are potential growth markets for American business because of expanding populations, the potential for a rise in living levels based on present low levels of consumption, and the likelihood of renewed economic growth following a period of slow growth in the 1980's.

The debt crisis in some middle-income countries and acute economic distress in sub-Saharan Africa have tended to obscure the real promise that exists in developing countries for growth in trade and investment. Since the 1980-83 global recession, developing countries as a group have actually recovered as export markets more rapidly than have the industrial economies.

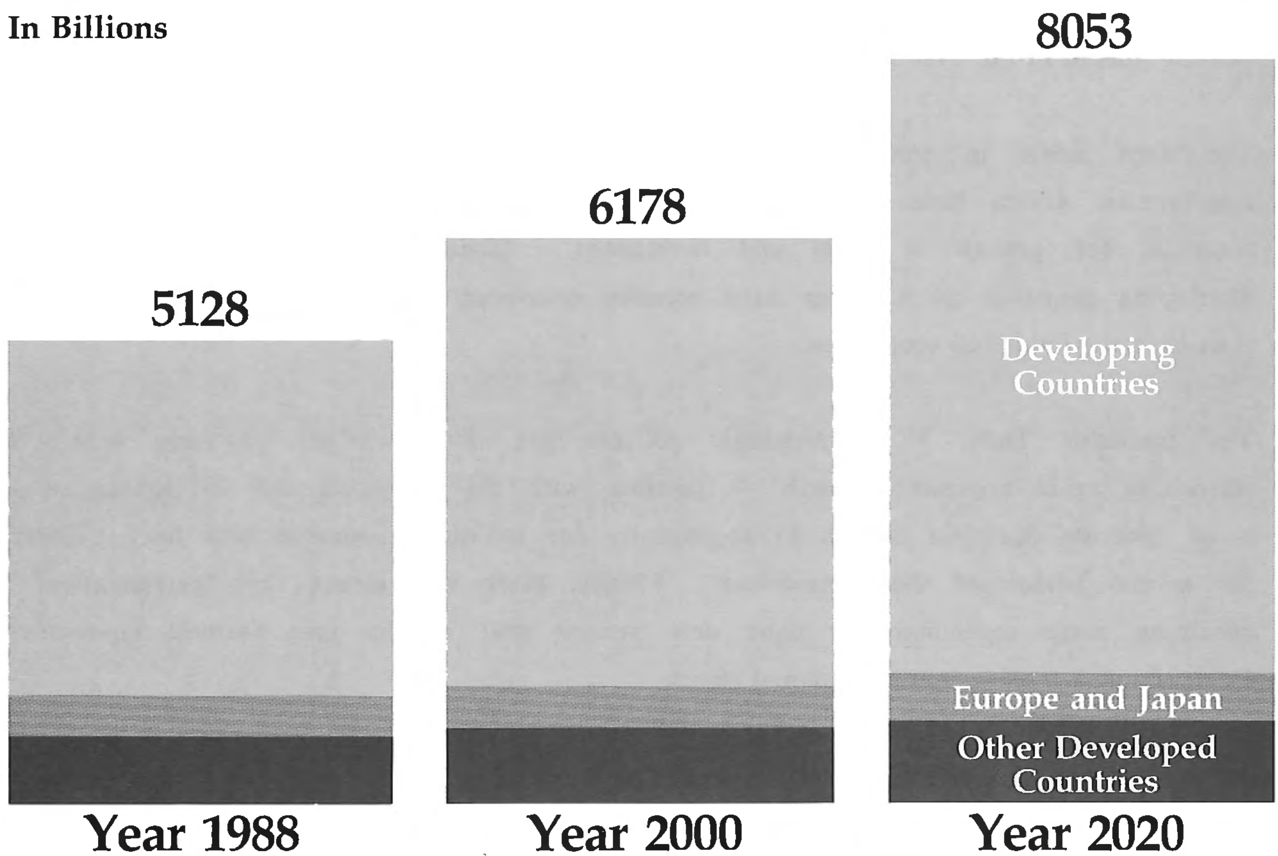
The predicted Third World economic collapse has not occurred, and any return to reasonably rapid economic growth -- together with the inevitable rise in population -- could generate dramatic growth in opportunity for industrial countries that have prepared for it and performed the groundwork. Finally, there is evidence that "privatization" is becoming more acceptable in many new nations that in the past favored government enterprise as a replacement for colonial status.

Differences in Population Growth

Three of every four of this world's consumers live in developing countries including China. By the end of this century, four out of five will live in those countries. In 12 years, Third World countries will have grown by more than a fourth, according to projections of the Population Reference Bureau.

The other side of the coin is the slow population growth in developed countries, which in 12 years will total less than 6 percent. Japan and the West European countries, which were the focus of U.S. marketing efforts for 40 years after World War II, are virtually static in population growth. Japan's population will grow by a total of only 6 percent in the next 12 years, and will show growth near zero in the first two decades of the 21st Century. In Northern and Southern Europe, population curves will be almost totally flat for the next three decades. Western Europe's population will actually decline. [See Figure 4]

Figure 4—Current And Future Population Estimates: Developing Countries vs. Developed Countries.



Source: 1988 Estimates, Population Reference Bureau; Regional Totals Independently Rounded

Consider this: The Third World population increase alone, over 12 years, will exceed the total combined populations in year 2000 of Japan, all of Europe, the Soviet Union, the United States, and Canada.

Growing Third World Needs

At the least, poor nations in the future will represent tremendous need for life's essentials: food, clothing, and shelter. At best, they will present a large opportunity as producers and consumers in the global economy. People without purchasing power do not constitute a market, and that's the story of the poorest nations today. But economic growth generates purchasing power, creates markets, and propels nations into the mainstream of the world economy, and that's the example presented by the newly industrializing countries.

Low consumption levels, poor health and human services, and inadequate education are characteristic of low-income countries. In 1985, average daily calorie supplies per capita in all developing countries measured only two-thirds the level for industrial countries. For this, many Third World countries spend from one-third to one-half of their income on food, compared with less than 20 percent for most industrial countries.

Such data dramatize the economic and social problems in Third World countries. But they also demonstrate the potential for advancement in man{ of those countries and the markets to be created as they move toward the global economic mainstream. The President's Task Force on International Private Enterprise, in its 1984 report, pointed out that the unmet needs of developing countries represent opportunities for business. "Attention to the developing world will mean bigger and better markets, a larger manpower pool, and increasing operational flexibility for those businesses engaged in the international arena."[45]

Economic Growth

Prospects for Third World economic growth in the next decade depend on how successfully the problems of those countries are addressed. Many observers, concerned about the debt crisis and slow economic growth in the 1980's, have argued that the rapid

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[45] President's Task Force on International Private Enterprise, Report to the President, December, 1984, p. 90.

growth of the 1970's was "an aberration" not to be renewed. John Mellor, Director of the International Food Policy Institute, takes exception, arguing that slow growth in the 1980's was the aberration and that rapid growth will be renewed in coming years.[46]

The U.S. Department of Agriculture predicts that Third World countries will register substantially faster growth rates over the next 5 years than will developed countries. USDA's Foreign Agricultural Service, which looks to developing countries for two-fifths of agriculture's overseas sales, says Third World economic growth rates should reach 3 percent or more in each of the next 5 years, climbing to 4.7 percent by 1993. Developed country growth rates will average at least a percentage point lower than developing countries over the next 5 years.[47]

Third World expansion will be led by the East Asia NIC's, especially South Korea and Taiwan, but other developing nations, too, should record growth rates substantially better than the slow pace of the past 5 years. Developing countries of the Pacific Basin will grow by an annual 5.6 percent, reaching 6.1 percent in 1993. But other Asian and Middle East developing countries will reach 5 percent by 1993, and Latin American countries will average in the 5 percent range within the next 3 to 5 years.

The World Bank believes that growth in the world economy to the mid-1990's will depend on the success of measures to improve the international outlook, domestic policy reform, new money, and creative debt restructuring. The Bank's "high case" scenario calls for "prompt and convincing" steps to reduce payments imbalances and renewed efforts at structural reform to expand private investment, eliminate bottlenecks in labor markets, and reduce protection and agricultural subsidies. Under that scenario, the World Bank says it should be possible to achieve real annual growth rates of around 3 percent in the industrial world and between 5 and 6 percent in developing countries.

Increases of that magnitude would recreate the growth decade of the 1970's, when Third World countries advanced sharply as customers for U.S. products.

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[46] John Mellor, Speech, Annual Meeting, Agriculture Council of America, Washington, D.C., September 15, 1988.

[47] U.S. Department of Agriculture (Foreign Agricultural Service), "Agricultural Trade Highlights," December 1988.

Third World Privatization

During the period of decolonization after World War II, socialist theory came into vogue and government enterprise became the basis of economic organization in many countries. For many, these theories are beginning to be abandoned in the face of economic failure in those countries, together with economic reforms in the major socialist countries, China and the Soviet Union.

In July 1985, at a meeting of the Organization of African Unity in Addis Ababa, Ethiopia, the assembled heads of state conceded publicly for the first time that "the primacy accorded to the state has hindered rather than furthered economic development."

This, the Agency for International Development points out, squares with U.S. policy. "This growing consensus among the developing countries coincides precisely with the principal thrust of U.S. government policy since 1981: promotion of the private sector as the engine of long-run economic development in the Third World."[48]

U.S. Programs Support Privatization

The Agency for International Development recognizes that privatization -- converting government-owned services and industries to the private sector -- is "still in its relative infancy" in the Third World, but it is helping that trend through technology transfer, investment promotion, management development, special assistance to small and medium-size enterprises, support for rural industries, and export development.

Help to American businesses is also available through the Overseas Private Investment Corporation. Congress created OPIC in 1969 to "mobilize and facilitate the flow of private U.S. capital and skills to friendly countries and areas of the developing world, thereby complementing the development assistance objectives of the United States."[49]

OPIC provides insurance for U.S. private investments against certain political risks and

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[48] "Expanding Freedom's Frontiers," Agency for International Development, 1987, p. 4.

[49] Annual Report, Overseas Private Investment Corporation, FY 1987, p. 3.

finances projects sponsored by eligible U.S. investors. It also promotes U.S. exports of goods and services in connection with investment projects it insures and finances.

CHAPTER 11: BARRIERS TO MARKET GROWTH

Obstacles to market growth in developing countries include the continuing debt problem, protectionism in both developing and developed countries, and internal policies that continue to limit trade and development in some Third World countries.

Third World Debt

The debt crisis of the 1980's grew out of the rise and fall of oil prices, increasing interest rates, and a global recession that reduced demand for Third World products. With the quadrupling of oil prices, Western banks began recycling billions of "petrodollars" as loans to Third World countries. These countries borrowed to build up export-oriented industries, mistakenly believing that markets would be assured by continued growth in the industrialized countries.

As trade deficits climbed and interest rates rose, debtor nations incurred further debt in order to meet repayment obligations. The crisis began when oil prices collapsed in the early 1980's and Mexico, Nigeria, and Venezuela -- all oil producers -- announced that they could not continue debt repayments. Brazil and Peru followed and the crisis soon enveloped at least 15 countries. As lending was reduced by the exposed Western banks, debtor countries were further hurt by a severe flight of capital to foreign banks. The result was austerity as debtor nations reduced imports in an effort to ease their financial troubles.

A combination of measures by developed countries and Third World debtor nations averted the total economic collapse that was widely feared early in the decade, and by 1988 the credit worthiness of the highly indebted countries had improved somewhat. Nevertheless, external debt continued to increase and by the end of 1987 stood at $1.2 trillion. Outstanding debt rose 3 percent in 1987 after increasing 7 percent in 1986.

Proposed Solutions

Numerous proposals have been offered to permit developing countries to resume economic growth, restore credit worthiness, and recover their ability to attract "spontaneous" lending by commercial banks. These include case-by-case debt reschedulings, comprehensive restructurings, interest capitalization schemes, and innovative solutions including what are known as "debt equity swaps."

Debt-equity swaps are a variation of foreign direct investment, which can generate inflows of new capital but with greater risk for the investor as compared with loans. Debt-equity swaps, which have been used to cover substantial debt especially in Chile and Mexico, convert foreign currency debt to domestic currency investment.

Recent U.S. policy has been based on the so-called "Baker Plan," proposed in September 1985 by then-Secretary of the Treasury James Baker and calling for resumed lending to support growth and adjustment in highly indebted countries. Others have called for a more liberal program of debt cancellation and writeoffs to permit debt-ridden countries to resume a more normal role in the global economy and as customers for U.S. products.

Protectionism and the Third World

A second hindrance to Third World market growth is the rise of trade protectionism in both developing and developed countries. The Congressional Budget Office, in a 1987 report, asserted that governments are increasingly resorting to policies outside the principles that have guided trade since World War II. "The GATT rules and procedures that have successfully guided four decades of trade liberalization show signs of breaking down. Unless confidence in the GATT is renewed, present difficulties could lead to a costly global trade war."[50] The current Uruguay Round of general negotiations under the General Agreement on Tariffs and Trade is an effort by more than 90 member countries to deal with this global problem.

Developing countries, like developed countries, argue both sides of the trade policy question -- maintaining import restrictions at their own borders while seeking greater access for their products in other countries. The Congressional Budget Office observed that trade protectionism cuts both ways: "Just as developing countries argue that it is not fair for developed countries to penalize them for their industrial success, so the developed countries complain of the self-serving trade policies employed by the most successful developing countries."[51]

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[50] The GATT Negotiations and U.S. Trade Policy, Congressional Budget Office, Congress of the United States, Washington, D.C., 1987, p. 17.

[51] The GATT Negotiations and U.S. Trade Policy, p. 44.

Developing countries often use non-tariff barriers as well as tariffs to limit imports. Some, like the European Community and other developed countries, have used export subsidies to gain unfair advantage in the export market. According to the World Bank, many developing countries have retained or increased their own import barriers and these remain considerably higher than those of industrial countries.[52]

On the other hand, the Bank believes past GATT negotiations have done little to liberalize trade in commodities important to the Third World countries and that those countries have been hurt by a sharp increase in the use of non-tariff barriers in Europe and North America. It believes progress in the Uruguay Round could improve development prospects and the Third World therefore has a major stake in those negotiations.

The GATT and Developing Countries

Developing countries historically have played a minor role in negotiations under the GATT. They have looked instead to the United Nations Conference on Trade and Development (UNCTAD) to express their demands for more stability in commodity markets and improved access to developed country markets, often including preferential treatment.

"Developing countries," according to the Congressional Budget Office, "see GATT's acceptance of trade restrictions by developed countries on textiles and apparel, and on agricultural products such as sugar, as proof of bias against developing countries. Consequently, most developing countries have not actively participated in previous rounds, even though this has inhibited their ability to secure tariff reductions for their exports and to influence codes of conduct for nontariff barriers to their benefit."[53]

However, issues affecting the developing countries are receiving greater attention in the GATT Uruguay Round negotiations now under way in Geneva. The export success of the newly-industrializing countries is bringing demands that those nations be integrated into the GATT system. At the same time, it is recognized that the poorer developing countries still require substantial assistance and special treatment.

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[52] World Development Report 1987, World Bank, p. 17.

[53] The GATT Negotiations and U.S. Trade Policy, Congressional Budget Office, Congress of the United States, Washington, D.C., 1987, p. 17.

Services and Intellectual Property Rights

A major issue between the United States and developing countries is trade and investment in services -- i.e. banking, law, insurance, telecommunications, engineering, data processing, and other knowledge-intensive fields. The United States was instrumental in getting this issue on the agenda of the Uruguay Round of the General Agreement on Tariffs and Trade because services offer trade opportunities for American firms.

Most developing countries opposed any treatment of services within GATT, contending that services are an investment issue and that trade rules could not be applied. They also argued that new GATT rules liberalizing trade in services would favor industrial countries with strong service industries and inhibit the growth of such industries in the Third World. A group of developing countries, led by India and Brazil, fought vigorously but unsuccessfully to keep services out of the Uruguay Round.

Closely related to trade in services is the issue of intellectual property rights, also a subject of major U.S. interest in the Uruguay Round. High technology especially suffers from violations of patent, copyright, and trademark law. The U.S. believes it has "suffered disproportionately from the lack of rigorous and uniform international standards for intellectual property rights." Developing countries -- not the only violators -- nevertheless "view weak intellectual property right laws as a vehicle for technology transfer."[54]

Third World National Policies

A third major obstacle to the growth of trade and development is the existence of unfavorable domestic policies within some developing countries. Trade policy is only one of the instruments used by governments to influence growth patterns. Price controls are pervasive in developing countries. Regulations may be more stringent on foreigners than on nationals. Interest rate controls are common along with regulations on wages, payroll taxes, and job security.

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[54] The GATT Negotiations and U.S. Trade Policy, Congressional Budget Office, Congress of the United States, 1987, p. 62.

Also hindering market growth are weak public institutions in many areas -- school systems that are inadequate, public utilities that function poorly, and federal ministries that hamper rather than encourage trade.

Government Controls

The World Bank argued in its 1987 Development Report that developing countries need more outward oriented trade policies along with policies to lower fiscal deficits and reduce dependence on price controls. "The experience of developing countries over the past three decades suggests that when direct controls replace market mechanisms, economies work less efficiently."[55]

The President's Task Force on International Private Enterprise put it more bluntly: "Many developing countries rely on stringent government control of every element of a transaction; enact policies that discourage business rather than attract it; and, in essence, favor government resource allocation over economic growth."[56]

Former Under Secretary of Agriculture Dale Hathaway, in a study for the Institute for International Economics, writes that most developing countries maintain internal farm prices, both to producers and consumers, at levels that depress farm prices and subsidize consumers. The result is to discourage the agricultural improvement needed for economic development in most poor countries.[57]

Prospects are Improving

On the positive side, the U.S. Government believes there is an emerging trend in many developing countries toward reliance on the private sector (see Chapter 10). It believes that trade restrictionism in those countries can be lessened through bilateral negotiations and the GATT Uruguay Round.

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[55] World Development Report 1987, World Bank, p. 131.

[56] President's Task Force on International Private Enterprise, Report to the President, December 1984, p. 90.

[57] Dale E. Hathaway, Agriculture and the GATT: Rewriting the Rules, Institute for International Economics, September 1987, p. 90.

Thomas L. Brewer of Georgetown University, Kenneth David of Michigan State, and Linda Y. C. Lim of the University of Michigan have published a guide for investors in meeting problems in developing countries but argue that many of these problems occur in all countries from time to time. "Much of your own experience in managing day-to-day problems in your business in the United States can therefore be transferred to your business in a developing country."[58] They believe that fears of governmental instability and expropriation are exaggerated, and also "there are government programs and corporate strategies that reduce the risks."

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[58] Thomas L. Brewer, Kenneth David, Linda Y. C. Lim, Investing in Developing Countries: A Guide for Executives. Lexington Books, 1986, p. 216.

CHAPTER 12: CHOICES FOR AMERICANS

Change is always with us, as Adam is said to have mentioned to Eve. But the speed of change, its nature, and its global impact are always new. Not only is change increasingly rapid, it is increasingly unavoidable because of the growing ability to communicate, instantly and universally.

One of the few certainties of the next decade is that Americans will be bombarded with articles and analyses welcoming the new century in terms of old and new -- documenting the past and anticipating change. The end of a year invites reflection and hope. The turn of a century is once-in-a-lifetime for analysts and soothsayers. But the turn of a millennium? The rush to historic judgment will be irresistible.

Historians, social scientists, and journalists will always categorize and classify. Otherwise, how can one grasp at all the oversize subjects they deal with? Hence the temptation to see a new year, a new decade, or a new century as something different in comparison with past eras as they are packaged and presented -- the Age of Discovery, the Age of Imperialism, the Victorian Era, the American Century.

Thus it may be useful at this turn-of-the-century to package present and future in neat bundles: A new Industrial Revolution? An Information Revolution? The end of hegemony? The beginning of the Pacific Century? The Global Century?

Fortunately, it is understood by all that these are generalizations -- that the world of the 21st Century will not begin overnight at the toll of twelve on the last day of the old century. The changes expected then are occurring now. And those nations and individuals who will benefit are those who are acting now.

For purposes of this review, the next century can be viewed in terms of three major developments:

(1) Growth in human needs. This is a certainty, dictated by growth in population and the present low levels of consumption among hundreds of millions of people. Whether this need translates into demand will depend on income. People do not make a market until they have the means to buy or trade.

(2) Technological Advancement. This is also a certainty, with the momentum already present in the world's laboratories, test plots, and factories. Advancement will come ever more rapidly as researchers and entrepreneurs work to extend their mastery of materials, scale, information, and time.

(3) Economic Change. Economics is less subject to the laws of nature and more subject to the vagaries of mankind. Nevertheless, while caution is in order, there are indications of a shift toward systems driven by entrepreneurs and markets rather than by governments and ideologies. The reforms evident in China and the Soviet Union, while tentative and uneven, are significant. So are changes in some "free world" nations -- even the United Kingdom. Also important are the beginning "privatization" efforts in some Third World countries. (See Chapter 10)

What does all this mean for U.S. official policy and American business?

If it is argued that Third World modernization is already well under way and economic growth certain -- albeit uneven and untidy -- then why should the United States spend tax money to speed the inevitable? Why should American business people involve themselves in foreign enterprises that are expensive and may not succeed?

Obvious answers to those questions include national security and humane considerations. Not so obvious is the need and opportunity for the U.S. Government and American business to be involved in Third World economic growth. Outside countries that participate in the development process are the countries that create economic opportunity for themselves -- present and future.

The Japanese recognize that fact in their decision to increase development assistance to the Third World. Japanese and German investors recognize it in their decisions to increase their stake in Third World enterprise. Many American businesses believe their future requires greater investment overseas. Many agree with Peter Drucker that, in the future, investment will drive trade, reversing the historic pattern.[59]

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[59] Peter Drucker, "From World Trade to World Investment," Wall Street Journal, May 26, 1987, p. 32.

Two dynamics are evident as we begin to close out the Twentieth Century:

(1) American business is operating in an economic system that is now global -- but one in which the U.S. continues to be a major mover, actor, and engine of growth.

(2) Developing countries make up a large and growing part of that system, in many ways more energetic and entrepreneurial than the mature and developed economies that Americans have identified with for almost 400 years.

The forces that are creating a global economy are present, undeniable, irreversible. They will influence U.S. official policy and private business decisions for decades and beyond. There can be no returning.

This should not spell economic eclipse for America, however, but rather a dawn of new horizons and expanding opportunity. What has been a universe of two dozen or so developed nations dominating world affairs for over a century will now encompass 200 countries awakened by a new sense of opportunity and expectation.

The United States is still tremendously advantaged in terms of resources, enterprise, and economic freedom. It is strategically positioned to take new initiatives in shaping the global economy and profiting from opportunities that are new or as yet unrecognized. As James D. Robinson III of American Express concluded, "...while the U.S. has lost its dominant position in the world economy, it need not lose its leadership."[60]

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[60] The Cuomo Commission Report, The Cuomo Commission on Trade and Competitiveness, Simon & Schuster Inc., 1988, p. xvi.

Part V. CASG STUDIES

1. Rice: Jamaica
2. Telephone Systems: China/New Guinea
3. Aviation: Africa
4. Export Management: China/Latin America
5. Rotary Compressors: Korea
6. Cosmetics: Asia/Latin America
7. Poultry: Dominican Republic
8. Industrial Cranes: China
9. Construction: Egypt
10. Yarn Testing Equipment: 50 Countries

RICE: JAMAICA

The Opportunity

An Arkansas rice farmer, in Jamaica to do a production feasibility study for the U.S. Government, conceived the idea of an integrated rice-growing and rice-milling company. He found that Jamaica imported almost all of its rice already milled and concluded that the market would support a milling operation on the island. In addition, by converting abandoned sugarcane land to rice, he could produce some of the rice to be milled by the plant, creating a viable integrated business.

The Jamaican government agreed to provide up to 51 percent of the total equity of about \$1.8 million through two state corporations. The remaining 49 percent was raised by the American entrepreneur and four other investors in their Arkansas hometown. Involvement by the Jamaican government was necessary because the government controls rice marketing and prices in that country. The government's majority ownership assures a market for the company's product and has eased the company's political relations. At the same time, the American manager is clearly in charge of the firm.

Company Strategy

The American investors retained a Jamaican businessman, a former rice miller in pre-Castro Cuba, to design the mill -- a modern plant utilizing American machinery but simple enough to take advantage of the island's ready and willing supply of low-cost labor. An abandoned 4,000-acre sugar plantation proved unsuitable for rice, and the company is now producing red peas and cayenne pepper on the farm. It has also planted papayas, mangoes, and oranges and is experimenting with other crops. Meanwhile, the company is waiting for the government to allocate additional land more suitable for rice.

The rice mill employs 45 workers, twice the number that would have been hired had a U.S.-style "high tech" plant been built (a move that proved politically wise on an island where unemployment is near 25 percent). The company provides employee benefits that are exceptional in Jamaica, and virtually all mill employees have been on the job since the beginning. The company farm employs more than 200 workers on a seasonal basis and pays the same wages as those at the mill.

Results

Today, more than 80 percent of the rice consumed in Jamaica is processed through the company mill. In the beginning, virtually all of the rice was surplus American product, imported under P.L. 480 (Food for Peace). In October 1987, however, the U.S. removed rice from the list of commodities available under P.L. 480, so the company is now buying on the open market. The company expects to earn a "decent return" for its American investors in 1989 and is poised for major expansion into other agribusiness fields. In the process, it created a market for American rice and for American milling machinery. It benefitted Jamaica by creating jobs, spending $4.5 million for goods and services each year in the local economy, and preventing the rice shortages that were frequent in the past.

TELEPHONE SYSTEMS: CHINA/NEW GUINEA

The Problem

A small Louisiana manufacturer of mobile telephone systems realized that its U.S. market was shrinking because of a shift in demand toward cellular telephones. It decided to look for new customers in the export market.

Company Strategy

After discussions with a Department of Commerce field office in New Orleans, the company sent a representative to China and to New Guinea to talk with prospects. It discovered that in countries with a developing communication industry, there continues to be a need for more basic telephone systems that are less expensive and easier to maintain and that do not require sophisticated skills to operate.

The company believes its practice of using local representatives is basic to its success. According to this philosophy, it is only by finding and staying in close touch with such a representative that the company can obtain a thorough understanding of the country's requirements.

Results

The first overseas sale was made to China, which uses the car telephone in road maintenance work and the fixed radio for rural telephone systems that avoid the expense of hard-wired construction. China sent a delegation to the United States to inspect the company's equipment and to learn how to install and repair it.

Next, the company outbid several international firms to win an order for car telephones in New Guinea. It sent an employee to the country to train New Guinea nationals in use of the equipment. Beyond this order, the company believes there is potentially a large market for its other equipment in 700 New Guinea villages with inadequate telephone service. It is also exploring market opportunities in the Middle East.

AVIATION: AFRICA

The Opportunity

An aviation company in the Pacific Northwest was organized in 1960 to provide agricultural and timber related aerial spraying and seeding services. It has grown and diversified into a multifaceted aviation services company employing almost 200 people and operating a fleet of helicopters. Like others in the helicopter industry, it experienced declining business after 1980, mostly because of a drop in offshore oil exploration.

Since 1974, however, the company had been involved intermittently with the World Health Organization (WHO) in its Onchocerciasis Control Program in West Africa. The company played a major role in designing the pilot project, aimed at controlling "river blindness," a severe and debilitating disease that cripples entire populations in many African communities. The company lost competitive bids to a Canadian firm in the late 1970's, but in 1986 the American company was awarded a three-year contract from the World Health Organization to provide aerial spraying services to control the spread of onchocerciasis. The three-year contract, beginning in January 1987, specified spraying services in 11 African countries.

Company Strategy

The project has its main base in the country of Cote d'Ivoire and a second in Togo. Each base has a resident project manager coordinating about 20 pilots and eight mechanics, mostly American citizens rotated on a yearly basis.

The project is focused on attacking the fly that transmits river blindness by applying chemicals along river banks where the eggs are laid. Both helicopters and fixed-wing aircraft are used in the program, which consists of initial overflights to identify breeding grounds, aerial application of chemicals, and spotchecks on the ground. While WHO does not expect the black fly to be eradicated, it has set 1996 as the target date by which it hopes to have the fly population under control.

Results

The WHO contract provided approximately 15 percent of the company's $25 million revenue in 1987, and directly supported 60 jobs. The project has enabled the company to maintain its staff and its helicopter fleet and also generated new purchases of about $4 million in new helicopters and parts, $1.4 million in other aircraft and parts, and $850 thousand in spraying equipment -- all from American manufacturers.

More important to the company, however, is the international exposure. The company is pursuing overseas sales and believes it is benefiting from the international presence provided by the WHO contract and additional services it is providing to the Agency for International Development. It hopes to parlay this experience and exposure into additional contracts with multilateral development institutions and foreign governments.

EXPORT MANAGEMENT: CHINA/LATIN AMERICA

The Opportunity

Five years ago, it occurred to the president of an equipment leasing firm in Washington State that exporting for others might be a logical extension of his operations. He viewed his leasing business as one of bringing together different parties into a working relationship, and believed those skills would be applicable to the export business. He thought he could apply the same "brokering attitude" toward American sellers, foreign buyers, international bankers, attorneys, licensing exports, freight forwarders, and others engaged in the exporting process.

Company Strategy

The company president took his time becoming well grounded in the export business. He took a course in international marketing at a community college and continued studying for 18 months before making his first move into export management. When he felt he was ready, he took on a nearby nursery in Washington as a client and started looking for customers in China. He worked on arrangements for two years before a breakthrough came as a follow up to the visit of a Chinese trade delegation to Washington State.

The company looks at export management as part of its overall operation. The export management function, it believes, is to provide new or small exporters with a "pivot or command center" which, by serving several client firms, can lower the costs for each.

Results

Since the first sale of fruit nursery stock to the Chinese, the company has sold nursery stock for the same client to a buyer in Costa Rica and is working in other Latin American countries. He has also acquired additional export accounts -- to sell compressed-wood heating logs, urethane and epoxy coating products, agricultural equipment, and Washington State wine.

The company's president is confident that diversification into export management is opening up profitable new opportunities for the company. He credits "patience and preparation."

ROTARY COMPRESSORS: KOREA

The Opportunity

A Maryland-based manufacturer of rotary compressors for air conditioners and refrigeration equipment envisions growth markets for its products in the Pacific Rim, Eastern Europe, and Latin America, but until now its international exposure has been limited. Like other manufacturers, the company has seen a decline in exports of window air conditioners and in compressors used in these small units. The company, investigating the South Korean market, found that the compressors used in that country's air conditioners were imported from Japan and that a U.S. exporter could not expect to match the Japanese advantage.

The company decided to become directly involved in South Korea by establishing a manufacturing facility there to compete with the Japanese. It entered a joint venture with a prominent South Korean manufacturer of air conditioners and other appliances, constructing a new plant near Pusan in southern South Korea. The American partner will supply the pump assemblies, a major component and one requiring heavy investment in research and development. The local joint venture will finish the compressor with some local content. Thus it will create jobs in the United States.

Company Strategy

The compressors produced in Korea will initially serve the Korean market, with most of them going into air conditioners made and marketed by the South Korean partner. In the longer term, the company sees the larger Pacific Rim area as a major potential market for its compressors. The joint venture agreement allows for sales to any market except North America, to avoid competition with the company's home base. The Korean partner will continue to export air conditioners to the U.S., but these will come equipped with U.S.-made pumps, not Japanese. It is also expected that these air conditioners (with U.S. pumps) will displace sales in other foreign markets by Japan, Singapore, Brazil, and others.

The company is the only major U.S. producer of this type of compressor. It sees this joint venture as a way to maximize the return on its technology, while retaining control over this key factor. This ability to control the technology is central to the company's planning. The company emphasizes that the major factor in its Korean venture is to gain strategic presence in the Pacific region, not to lower its labor costs.

Results

The company estimates that the total investment in the joint venture will be approximately $5.7 million. The initial capital outflow from the U.S. was $860,000. Initial procurement from the United States, mostly for equipment and machinery, is estimated at $1.5 million. Ongoing procurement from the U.S., mostly for pumps, is projected at $34.7 million over the first five years of the project.

COSMETICS: ASIA/LATIN AMERICA

The Opportunity

A small cosmetic manufacturing company in Oklahoma had been in business since 1973 but had made only a few overseas sales -- to Germany and Holland -- and did not actively pursue export markets. The company's president became serious about exporting only about five years ago when she received an unsolicited inquiry from France. Checking into the French market, she learned of the many services available to assist the company.

Company Strategy

The company works closely with a Department of Commerce field office in the development of overseas markets. It also utilizes export services of the Oklahoma Department of Economic Development, the U.S. Department of Agriculture, and two Oklahoma City banks.

The company's president emphasizes patience and personal relations in building export markets for cosmetics. She has spent much time learning about customs in customer countries and the personalities of people there. Many of her foreign customers have visited the company in Oklahoma.

Results

Today the company exports to Malaysia, Singapore, Taiwan, Korea, Brazil, Guatemala, Honduras, and other countries including France and Japan. The company exports 20 percent of its output directly to foreign customers and hopes to increase that share to 50 percent. In addition, substantial quantities of its output go to American companies that resell them under their own private labels, some to export markets.

POULTRY: DOMINICAN REPUBLIC

The Opportunity

A Florida-based company was established in 1972 to manufacture and distribute animal feed and mineral/vitamin concentrates formulated for poultry production. It is a successful example of a growing number of Miami-based small and medium sized companies that are aggressively pursuing markets in Latin America.

In its early years the company developed markets in a half dozen Caribbean countries as well as Nigeria. In 1975 it established a joint venture in the Dominican Republic which is now the fourth largest poultry producer in that country with a 10 percent market share. The joint venture, with a private Dominican firm, operates a feed mill, 11 poultry farms, breeding and hatching facilities, and a fleet of trucks.

Company Strategy

Initially the joint venture was simply the sales arm for the company in the Dominican Republic. Over time, however, the company found that it needed to add some of the value of its product "in country," and it is has followed that strategy. It plowed some of its profits back into the acquisition of operating facilities, which it then expanded until it reached its present position in the market.

Company officials are quite bullish on the Dominican poultry market. They believe that a large pent-up demand exists despite the annual 9 percent growth in per capita consumption achieved in the 1980's. The company determined to target that pent-up demand, to increase its sales and perhaps its market share.

In August 1987 the company began a major expansion, aided by a loan from the Overseas Private Investment Corporation (OPIC). It expanded its breeder operation by 71 percent to the present level of 180,000 fertile eggs per week. It built 25 new broiler houses, increasing its chicken raising space by 64 percent. It remodeled and modernized its processing plant, almost doubling its capacity to 69,000 birds per week. In the process the company increased its payroll from 163 to 284 persons.

Results

The joint venture has introduced modern U.S. production techniques to the Dominican Republic and helped fill the gap in protein supplies for consumers there. It has also generated sizeable exports from the United States, totaling since the beginning some $2 million in equipment and $10 million worth of feed and supplements. The latest expansion involved the purchase of $812,000 in U.S. equipment and boosted imports of U.S. feed mixes to $1.5 million projected each year for the next 5 years. It is also estimated that the joint venture will import from the U.S. each year an additional $500,000 worth of vaccines, breeder pullets, and equipment spare parts.

INDUSTRIAL CRANES: CHINA

The Opportunity

A Washington State employer of 100 people manufactures cranes for dam construction, container handling in ports, and other uses. They perceived that rapid economic growth in China might provide a business opportunity there but believed this would require a Chinese partner.

Company Strategy

The company spent seven years traveling and exploring business possibilities in China before signing a contract. Officials finally decided they could work well with the managers of a factory in Szechuan province under the government's Power Ministry. They signed a $6 million contract to build a dam, in which the company provides engineering, technology, and technical equipment. The company is also helping the Chinese to build some of the basic equipment needed for the project.

The company now has technicians living in China, and a Chinese official works at the company's factory in Washington State. It believes its experience and "philosophy" of dam building is important to the project, along with the high work performance and product quality provided by the Chinese partner.

Results

The project involves $5 million worth of U.S. exports to be shipped to China. The company is pleased with its Chinese partner and believes it will be busy in China for a long time to come. Also, the partnership with the Chinese has led to other opportunities, which the company is pursuing in Korea, India, and Taiwan.

CONSTRUCTION: EGYPT

The Opportunity

A Texas firm does project management, procurement, construction, and engineering for projects throughout the world. It formed a 70-30 percent joint venture with a Tennessee construction company to bid on a $34 million project in Alexandria, Egypt, funded by the U.S. Agency for International Development.

The project, begun in 1985 and completed in 1988, consisted of five pumping stations to move waste water to a sewage treatment plant. Additional construction included staff housing and operations buildings. The Egyptian contractor was the Alexandria, General Organization for Sanitary Drainage (AGOSD), an agency wholly owned by the Government of Egypt.

Economic Benefits

The contract was particularly important to the Texas partner, headquartered in Dallas, and to Texas subcontractors because of the decline in the oil industry and the resulting economic slump in that state. The Texas firm credits the project with providing 15 percent of its business in one year. A small export handling company in Houston, retained to handle most of the packing of U.S. procured equipment on its way to Egypt, credits the project with helping to keep it in business during a difficult two-year period.

The pumping stations project resulted in the sale of at least $18 million in U.S. manufactures. Procurement consisted of sluice and slide gates, screens, pumps, instrumentation, pipes, transformers, and miscellaneous electrical equipment. Procurement was spread among several companies and factories in at least 10 states. The largest single supplier was a New York pump manufacturer, which supplied sewage pumps valued at near $1.4 million.

Protection Against Risk

The joint venture was required to post an irrevocable standby letter of credit as a performance guaranty in the amount of $5.1 million. The Egyptian government required this to ensure the satisfactory completion of the project. To protect itself, the joint venture company obtained insurance coverage from the Overseas Private Investment company (OPIC) against the risks of war, revolution, insurrection, civil strife, and disputes. In addition, it obtained dispute coverage and equipment insurance from private carriers. AID, as the funding agency, did not require OPIC or other insurance coverage, but the joint venture partners deemed it necessary for their own protection.

YARN TESTING EQUIPMENT: 50 COUNTRIES

The Opportunity

A small Rhode Island manufacturer produces instruments to test the quality of yarn or fiber. Until five years ago, most of its output -- 90 percent or more -- was sold in this country. But the company believed it could see a large market overseas and decided to target that market.

Company Strategy

The company shifted effort, personnel, and money into building export markets. Its marketing vice president began to travel abroad for about six months a year, to recruit agents and visit customers and prospects in their plants. The company concentrates on fast personal service, believing that the greatest fear among foreign customers is that they may not be able to get technical support. It believes that outstanding service of this kind produces word-of-mouth advertising that is valuable in building additional overseas sales.

The company presents itself abroad as a leader, as a company that pushes hard, offers something unique, and can do a job better and cheaper. It looks to the Department of Commerce field office in Providence to provide trade information and help in speeding up shipments of technical products.

Results

Export sales now account for more than 60 percent of the company's production. The firm sells in 50 countries, including Mexico, Turkey, Taiwan, India, and Indonesia as well as several West European countries.