

“After the Meltdown: Is Globalization Still Good for America?”

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[View the accompanying PowerPoint slides](#)

Hello, and thank you for inviting me to speak here today. It’s an honor to visit your state and meet with such a prestigious group. I’ll be presenting for 25 minutes or so, followed by what I hope will be lively Q&A and discussion.

My topic is “After the Meltdown: Is Globalization Still Good for America?” My answer -- to spare you all a lot of suspense! -- is “Yes.” I hope that’s not terribly surprising. My line of work basically revolves around advocating for – and defending -- big business and multinational companies, most of which have done quite well in a more integrated, expanding and dynamic global economy. Of course, this view is not universally shared. And like most of the executives that my organization works with, I’m not blind to the fact that many of our political leaders, and much of the general public, hold business largely responsible for our recent economic problems.

But I hope we can have an informed discussion today of the current state of the U.S. and global economies, and in the process explore some of the ties that bind a city like Anchorage, and a state like Alaska, to broad trends in the global economy. I’d also like to present the results of some new research my organization has brought to light that describes and quantifies the impact of multinational companies on the domestic economy of the United States.

A word of warning: this presentation will be heavy on numbers and graphs. I’m no economist, but I do believe it’s important to look at the hard data when discussing a topic as important and sometimes emotionally charged as globalization.

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

Who do we represent? About 300 major U.S. multinational companies and leading exporters, plus a variety of global law firms and industry associations. All told, our

members have annual revenues of about \$4 trillion and have significant business operations in nearly every country on earth.

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

The Council maintains a unique global network encompassing leading international business organizations. Chief among these is the International Chamber of Commerce, or ICC. Based in Paris, with a long history that dates back to its founding in 1919, ICC serves as the world business organization, with corporate members and national committees like my own organization around the world. ICC also maintains the world's foremost court of international arbitration for the settlement of cross-border commercial disputes.

Through this global network, as well as independently and in concert with other U.S. industry groups, the Council provides business views to policy makers and regulatory authorities worldwide, and works to facilitate international trade and investment.

I have brought a few materials to share that describe the work of the Council and our affiliated organizations in greater detail. You can also learn more at our website, www.uscib.org.

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So then, what is the state of the U.S. economy, and the global economy, as we emerge from what has been, for many countries, the most wrenching economic upheaval since the Great Depression?

This chart is from the National Bureau for Economic Research, or NBER, which among other things determines when economic expansions and recessions begin and end. You can see that, following the peak of the previous economic expansion in December 2007, gross domestic product in the United States fell sharply, but has more recently begun to come back upward.

Employment, on the other hand, has fallen dramatically, almost 7 percent, and while leveling off, has only in the past month started growing again at an acceptable pace. This is a familiar pattern, common to all recessions, although of course the sharpness of the downturn in both GDP and employment makes this downturn much more jarring than the previous two recessions in 2001 and 1990-91. (Even in the 1982-83 recession, where unemployment reached the same level, 10.2 percent, that it peaked at last year, this was from a higher rate before the recession, so the impact his time has felt far more severe.)

In its most recent report, earlier this week, the NBER actually said it couldn't rule out a double-dip, or W-shaped, recession, although several members said individually that they thought the economy would continue to rebound from here on out. But technically, according to the NBER, we are still in a recession.

For the global economy, let's look at two charts from the OECD, which includes the United States and 29 other industrialized trading partners. These show leading economic indicators and real GDP growth from across the OECD area, plus in six leading emerging markets (including China and India), over the past 15 years. You can see the steep decline in global output as compared to the previous recession in 2001.

You can see that the global economy has rebounded, and OECD indicators point to continued economic expansion, although at a different pace across various countries and regions. The strongest signs of recovery are in the United States and Japan, which not incidentally also experienced among the steepest drop-offs earlier. Europe, where the contraction was not as steep, is also showing signs of slower growth. At the same time, China's growth, which remained strong throughout the global downturn, appears to be slowing down. Other emerging markets are showing signs of moderate growth

So where does that leave us? The economist Robert Samuelson wrote earlier this week that, when things were going well, that United States had what many called a "Goldilocks economy," not too hot, not too cold. At the time, that led economists to downplay potential bad news like the housing bubble. But now, he says, we suffer from the reverse, an "Oscar the Grouch economy," where good news gets discounted and pessimism is trendy.

But Samuelson identifies several positive signs, and they are positive indeed. For one thing, after months and months of dismal jobs reports, we just added some 162,000 jobs. That's the largest rise in three years. For the first time in nearly two years, more big-company CEOs expect to expand their workforces in the next six months than reduce jobs. And companies that have ridden out the credit crunch and the recession are sitting on more cash than they have in a long time, which augers well for outlays on machinery, office equipment and the like.

But we can't have a decent recovery just relying on the U.S. market. We need trade and overseas commerce. As President Obama noted recently, 95 percent of the world's consumers live outside our borders. The President has set the ambitious goal of doubling U.S. exports within five years – something my organization supports wholeheartedly.

After the onset of the financial crisis, the global falloff in trade was precipitous – far more severe than the overall drop in income. To get trade moving again, we need to ratify the pending free-trade agreements with Korea, Panama and Colombia, and we need to aggressively begin trade negotiations with major countries in the Pacific and elsewhere, and bring the long-stalled Doha Round of global trade talks to a successful conclusion.

And yet trade is only part of the equation. To succeed and prosper in the years ahead, you in Alaska know that you need to attract the most competitive industries and companies to do business in your state. And that's something we as a nation need to focus on as well.

So let's look more closely at foreign investment. Here is a slide on foreign direct investment in Alaska, courtesy of the Organization for International Investment. FDI is pretty significant here: 18 percent of the manufacturing jobs in your state are with foreign companies. Overall, foreign investors in the United States employ over 5 million people, and pay their employees 32 percent more on average than the private-sector average.

Governors and mayors across the country – and indeed around the world – know the importance of foreign direct investment. That's why they compete aggressively to win new plants and investments from Europe, Asia and elsewhere. They know that FDI drives the growth of many of the most successful local and regional economies.

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So investment will be crucial to our economic future. But let me get to the heart of the issue at hand – globalization. What's the image that most often comes to mind when you think about globalization? If you're like many people, you think of outsourcing...of shipping jobs overseas. Certainly our president and a number of other politicians in our country, and around the world, have made a lot of mileage out of that idea.

But what if I told you that the whole idea of companies "shipping jobs overseas"...is a myth?

That's right, a myth. Not in individual circumstances, of course. There are always specific stories and plenty of anecdotal evidence of companies closing plants, outsourcing operations to one country or another.

But what if I told you that, on balance, across the entire economy, the evidence clearly shows that companies taken as a group are not shipping American jobs overseas.

What would you say to that? Your reaction is probably something along the lines of "Prove it." Well, let me try to do just that.

In a study my organization commissioned with the Business Roundtable, released last month, Professor Matthew Slaughter of the Tuck School of Business at Dartmouth sifted through the most recent data on company operations from the U.S. Bureau of Economic Analysis. His conclusion? On balance, American multinational companies create new and better-paying jobs here in the United States through their participation in the global economy. What's more, Professor Slaughter shows that the overseas operations of these companies complement – rather than substitute for – domestic employment, employee compensation and investment. Let's take a look at some of his findings.

Here we can see the extent to which U.S. multinationals outperform many other parts of the economy, making them truly our most competitive enterprises. With just 20 percent of overall domestic employment, multinationals provide 25 percent of our domestic output, 30 percent of capital investment, 45 percent of our exports and fully 75 percent of domestic R&D.

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

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

Slaughter writes – and this is my main point: “We often hear that companies are shipping jobs overseas to low-income countries, but the data does not support that argument. Far from ‘abandoning’ the United States, as critics charge, worldwide American businesses employ more than two workers in the United States for each worker employed at a foreign affiliate.”

To illustrate this, look at this chart included in Professor Slaughter's report. It shows that domestic employment by U.S. multinationals has risen and fallen in tandem with their overseas employment.

I emphasize that we didn't make up these figures. It's based directly on hard data collected every year by the Bureau of Economic Analysis, part of the U.S. Commerce Department. Economists agree that this data is the most reliable of its kind anywhere in the world. In fact, part of our motivation for publishing this study is to spur other countries to provide similar data for their citizens to review.

In his study, Professor Slaughter argues quite reasonably that, given their central role in underpinning domestic economic growth and job creation, U.S. multinationals must continue to focus on strengthening their competitiveness by actively engaging in investments overseas.

He writes: “The expansion of worldwide American companies into international markets has long supported economic growth and employment here at home. In recent years, though, the United States has become a slow-growth market compared with much of the world. This, coupled with our current economic challenges, makes it more critical than ever for U.S. workers and businesses to compete and succeed in the global marketplace.”

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

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

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Professor Slaughter’s paper has a lot more data on things like the breakdown in sales and operations of American multinationals in different markets, how their physical presence overseas drives exports, and much more. But I need to wrap up, so I’ll refer you to the paper, which is available free on our homepage, again that URL is www.uscib.org.

So, in conclusion, globalization has been good for America, and it will continue to be. With the vast majority of the world’s consumers outside our borders, global engagement isn’t a danger for us. It’s not even a luxury, something we can dabble in. In today’s world, it’s a necessity.

Let me just display three names and e-mail addresses for those of you who would like to follow up after today’s presentation. I hope this has been interesting for all of you. Thank you very much.