

Global Interdependence

A Sobering Reality



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Mr. Peterson is the author of several books, including *Gray Dawn: How the Coming Age Wave Will Transform America—and the World* and *Will America Grow Up Before It Grows Old?*

In thinking about the emerging relationship between the United States and the global economy, I am struck by a rather curious anomaly: The more dominant our status as a military, economic, and geopolitical superpower, the more dependent we seem to have become on the rest of the world. Global interdependence is more than a new cliché—it is a sobering reality.

Global terrorism is widely considered to be the transcendent threat to our national security. Here, too, we urgently need the continuing cooperation of the rest of the world, as we are learning—a bit reluctantly—in our sobering post-war experience in Iraq.

We would also do well to remember the sage caveat of one French observer, who said that “when economics gets important enough, it becomes political,”—an idea that rings especially poignant next to Herbert Stein’s pungent remark that “if something is unsustainable, it tends to stop.”

We are now confronted with at least two such “unsustainables” that could easily unsettle the global political economy: our unprecedented current account deficits and the emerging global aging crisis.

For years, leading international economists have said that the U.S. could sustain a current account deficit of 2-3 percent of the GDP. Today, the melancholy fact is that America’s current account deficit is at record-shattering levels, about 5 percent of GDP and climbing. In the 1980s, when the U.S. experienced its previous record current account deficit, at about 3.5 percent of the GDP, the dollar fell by one-third on a trade-weighted basis and about half vis-à-vis the yen. Possible scenarios on our mind-numbing current account deficits include some potentially troublesome outcomes. These should stimulate Americans to do everything possible to manage our economy, and most particularly our deteriorating fiscal outlook, better than we are today.

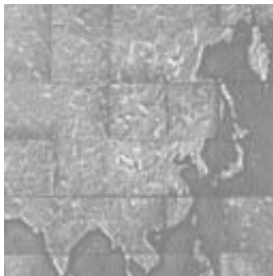
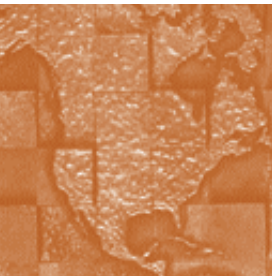
Global aging—by which I mean both the explosion in both the longevity and the sheer numbers of elderly, combined with an unprecedented drop in birth rates; and the shrinking future crop of taxpaying workers in most developed countries—this is another prime candidate for unsustainability. In our pay-as-you-go, unfunded world of senior benefits, there is virtually unanimous agreement that the implied tax increases or benefit cuts or increases in debt—or all of the above—are both unsustainable and unthinkable in economic, political, or indeed moral terms. Europe’s and Japan’s predicament is even more sobering than ours.

The conventional wisdom tells us that, given the toxic politics of reforming these senior benefit programs in a timely manner, only a crisis—perhaps in our financial and exchange rate markets—will energize a solution. But let us be clear: This has serious implications for us all, particularly in our tightly linked capital markets.

Both of these unsustainable scenarios dramatize the need for sound, courageous, and cooperative management of our domestic economies and the global economy.

Returning to my basic theme of the new urgency of global interdependence, a further comment on the U.S. role: The United States has become the engine of the world economy but even more important is seen, however grudgingly, as the example of what a 21st-century economy is likely to be. Among the mature countries in the world, the U.S. is one of very few that is generating sufficient domestic demand to absorb exports from the emerging market countries and others. It is one of very few that has demonstrated the flexibility and, in particular, the labor mobility to define and weather the rapid technological, scientific, business, and financial innovations that characterize the global economy.

It is one of very few that has developed both the capital market structure to sustain risk-taking and the institutions to reward business success and deal with business failure. As a result, productivity has grown rapidly, the standard of living has leapt ahead, and the U.S. has attracted professionals and skilled and unskilled labor from around the world. Even our mistakes, such as the extensive corporate governance scandals that emerged in 2001–2002, are studied around the world.



So, in many ways, the world seems more dependent than ever on the U.S. economy.

At the same time, the U.S. economy is also more dependent than at any other time since perhaps the nineteenth century on the rest of the world economy, and thus on growth and financial stability abroad. One reason is the simple fact of globalization, longstanding in the financial markets but now also a fact of life in the production of goods and, increasingly, services, making the national economies of mature and emerging countries increasingly more tightly linked and interdependent. A second reason is that the United States has become the world's largest debtor: Until our yawning savings-investment gap closes, the U.S. requires an unprecedented steady and reliable inflow of savings from the rest of the world.

As a result, the U.S. also has a crucial stake in the strength and effectiveness of institutional frameworks in other countries, as well as of the

international economic institutions. The Bretton Woods institutions may require reforms, but the U.S. has every interest in strengthening them, rather than allowing them to wither. Similarly, the U.S. has an important stake in seeing that the latest round of trade negotiations under the World Trade Organization comes to a successful conclusion. There is an obvious need for greater direct U.S. engagement in institutional development in individual countries as well.

Moreover, the U.S. stake in emerging market countries provides a rich agenda for the United States to engage its economic partners in the mature economies. We have a common interest in resolving the current global imbalances in a manner that continues to raise, not just maintain, the standard of living in the mature economies—an especially challenging task given the daunting demographic developments lying ahead for the world's wealthy countries. And we have a large common interest in raising the standard of living and increasing the economic integration of the emerging market countries, since we know from the post-World War II experience that economic integration and prosperity together provide a strong bulwark against global instability and, now, terrorism.

A more visible and robust U.S. commitment to strengthening international economic architecture and performance would enhance U.S. “soft power,” arguably something just as important to its long-run national interests as its role as a military power. This would also help reduce both the generalized turbulence in the increasingly integrated and interdependent world economy and the added turbulence caused by the two current “unsustainables” I have mentioned—America's massive current account and domestic deficits and what can safely be called the global aging crisis.

Corporate Social Responsibility Across the Borders

A European (and Multinational) View



Thierry Desmarest has been Chairman and CEO of Paris-based Total SA since 2000. Total is the product of a two-way merger concluded that year—first between France's Total and Belgium's Fina, then with France's Elf Aquitaine—creating the world's fourth-largest private oil company, with operations in over 120 countries.

Previously, starting in 1995, Mr. Desmarest was the Chairman and CEO of Total. He had earlier served as Total's President of Exploration and Production, and was a member of the company's executive committee.

Mr. Desmarest, who started his career in 1971 as head of the mining directorate in New Caledonia, also worked as a technical adviser in France's Ministry of Industry and its Ministry of Economic Affairs. He is a graduate of France's prestigious Ecole des Mines and Ecole Polytechnique.

Although Total is based in Europe, that doesn't necessarily mean we see things so very differently from our counterparts in other regions. Increasingly, multinational companies like ours face the same conditions, challenges, and opportunities wherever they operate, as globalization profoundly reshapes today's world.

In the years leading up to September 11th, that world may have been lulled into complacency. The euphoria that greeted the fall of the Berlin Wall and the hopes raised by the Middle East peace process had created a burst of optimism that democracy and stability would spread. But the geopolitical tensions stemming from the terrorist attacks on the World Trade Center have been a wake-up call to multinationals about the ongoing risk of global terrorism. Since multinationals often work in high-risk countries, terrorism is a major concern. Many of our own teams, for instance, have to manage such risks in their day-to-day operations.

But heightened sensitivity to sustainable development and a re-examination of the legitimate role of companies in society make for a more fundamental, sweeping change that is having an even greater impact on how companies operate and expand globally. Economic, energy, environmental, and political uncertainties are fueling a preoccupation with these issues, but there is also a widely held belief that nations and government organizations cannot resolve the challenges of globalization without the support of companies. As a result, companies are being asked to develop solutions to help alleviate fundamental problems such as global warming, inequality between industrialized and developing countries, and access to energy. The spotlight is on corporate social responsibility.

As an energy and chemical company operating in 120 countries, Total is inevitably a major player in this global process. We were pursuing sustainable development long before it attracted broad media coverage, and our core commitments include:

- reducing our environmental footprint and industrial risk;

- leveraging oil and gas resources;
- developing new energies;
- fostering equity and diversity in our labor relations and human resources; and
- integrating our operations into local communities.

Our initiatives leverage a high degree of technological know-how and innovation, and require constant management oversight. The human factor heightens this complexity, as does the diversity of situations in which we operate. This is particularly true where social, societal, and ethical issues are concerned, which is why I will be focusing on them here.

The operations of a multinational like Total generate considerable wealth. How to use that wealth to drive local and regional development is a key societal concern for us. The question of how best to contribute to regional development is particularly sensitive in emerging countries, where our capital-intensive industrial projects can create social instability if not properly handled.

Any local or regional response must first take the full measure of the situations, cultures, and constraints involved—programs can be effective and efficient only if we clearly understand the priorities of the people concerned. Communities in non-OECD countries are more focused on health and education, for example, while those in OECD nations tend to emphasize continuous improvement in the quality of life.

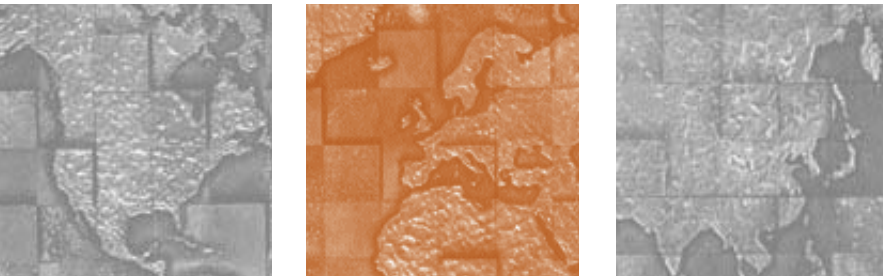
Getting things right also means listening to and dialoguing with the people in neighboring communities to understand their needs. Front-line partnerships enable us to identify the right project at the right time in the right place. This is why we continue to form partnerships with NGOs that have strong local ties; and why we promote active participation by local communities. It is the best way to ensure the long-term success of the development process—even after Total leaves.

This approach to community relations is not restricted to European companies. In fact, we in Europe have probably not done as much to formalize our societal practices as our North American counterparts. At Total, we've been focusing on for-

malizing this process and promoting experience-sharing among regions and businesses for the past year or so.

In the area of human resources, we feel that corporate social responsibility means ensuring that baseline labor standards are set so that our employees are united on a level playing field within the company. Not to sound clichéd, but I think that the special emphasis on this at Total probably stems from our European sensibilities. Corporate standards are also the best way to ensure equity, one of our core values.

Our salary policy, for example, aims to provide all employees across the globe with total compensation that is competitive in their market and that rewards both individual and corporate performance.



We have also created a corporate body to monitor the current insurance and retirement plans of all our companies worldwide. Our goal is to go beyond national requirements and, when necessary, offset the lack or inadequacy of government-mandated programs, thereby contributing to the financial security of employees and their families.

Our ethics-related actions and responsibilities, too, we frame within the context of more universal principles that transcend borders. Civil society is increasingly concerned with ethics and human rights—both corporate and personal—and, as responsible citizens, employees must be able to take pride in their company’s ethical record. This is a positive development for society as a whole, wherever people live or work, but ethical issues are often so complex that there is no simple answer—especially for companies like us operating in challenging environments.

At Total, our actions, standards, and practices must comply with the ethics, corporate values, and principles set out in our Code of Conduct. The Code—a benchmark for employees and people outside Total—upholds the universally recognized principles of the Universal Declaration of Human Rights and the International Labour Organization.

The cultural, political, geographic, and economic diversity that multinationals deal with every day make strict ethical principles and rules crucial—Total’s management closely tracks how our Code of Conduct is being applied in a wide variety of circumstances. These scenarios can sometimes be very challenging for the local population—political instability, lack of democracy, internal divisions, war—and they can also place serious ethical demands on our teams, as they seek to apply our values in countries that are not democracies without imposing a cultural model perceived as alien to local principles. The Code of Conduct is a valuable aid in our ongoing efforts to strike the right balance.

But it is not enough on its own—we have to help people apply these values in their day-to-day activities. This requires practical training, advice, and oversight, which is provided by our Ethics Committee, set up in March 2001. Anticipating and preventing problems in these areas is the duty of everyone in the company.

Transparency is another key concern for the oil industry, and here our position is unambiguous: We will participate in measures that would enhance transparency, for example, within the framework of a supranational organization that would publish consolidated revenue figures with the agreement of the governments concerned. And we contributed to the Extractive Industry Transparency Initiative (EITI), endorsed by the G8 at the Evian Summit in June 2003 in the Action Plan on Fighting Corruption and Improving Transparency.

Managers and employees alike must set an example in this area. We must all take personal responsibility and conduct ourselves ethically in both our personal and professional lives. There is no room for a double standard.

Lifting Asia's Economic Plateau

A Slow But Necessary Path to Self-Renewal Begins in China



Morris Chang is the founding Chairman of Taiwan Semiconductor Manufacturing Company Ltd. (TSMC). TSMC pioneered in the “dedicated silicon foundry” industry and is the largest silicon foundry in the world.

Prior to founding TSMC in 1987, Dr. Chang was at Texas Instruments for 25 years (1958–1983), where he was Group Vice President for the company’s worldwide semiconductor business. Dr. Chang earned B.S. and M.S. degrees from the Massachusetts Institute of Technology and a Ph.D. from Stanford.

Selected by Time Magazine and CNN in 2001 as one of the Top 25 Most Influential CEOs, Dr. Chang was the 2000 recipient of the IEEE Robert N. Noyce Award for exceptional contributions to microelectronics industry. He is a member of MIT Corporation and the National Academy of Engineering, and is on the advisory boards of the New York Stock Exchange, Stanford University, and the University of California at Berkeley.

Almost everywhere in Asia, economic growth has slowed down perceptibly in recent years. Japan is in its second decade of stagnation and, even with the recent optimism about recovery, expects to eke out only a modest growth in 2003. The “four little dragons” of the 1980s and early ’90s—Singapore, Hong Kong, Taiwan, and South Korea—have not done much better since the Asia financial crisis of 1997–98. Singapore, which was accustomed to 8 percent or higher growth every year before 1998, has had two negative growth years since then (1998 and 2001) and appears to be heading into another one this year. Hong Kong experienced –5 percent growth in 1998 and has averaged about 4 percent growth since then—lackluster compared to its record before 1998. Taiwan has gone from 6–8 percent annual growth in the decade before 1998 to an average of 3–4 percent since then. South Korea, after recovering from a 6.7 percent contraction in 1998, has performed erratically, and in fact experienced sequential quarter-to-quarter contraction in the first half of 2003. The other smaller economies in South Asia have behaved more or less similarly to the four little dragons.

The only major strong-growth economy belongs to China. There, the growth has averaged above 6 percent since 1998. What caused the slowdown in economic growth in all the countries outside China? There were perhaps many reasons, but the biggest reason may be one word: China. For more than a decade now, China has acted as a strong magnet for manufacturing industries. China has a large available workforce of good quality; its wage levels are low compared to most of the developing nations in Asia; and its national and local governments have been very solicitous in attracting investments, technology, and talents.

After more than a decade of strong growth, China’s magnetism shows no sign of weakening. Only a small percentage of the potential workforce is tapped. As manufacturing goes inland from the coastal area and as China’s agricultural economy converts to industrial, the potential availability of an industrial workforce is almost unlimited. The wage levels are rising, but have a long way to go before they catch up even with most of the developing countries. As to the government’s efforts to attract investors and expatriate and repatriate talents, well, success feeds upon itself, and the national and local governments certainly show no sign of tiring so far.

China’s climb up the manufacturing technology ladder has been fast. In the late 1980s and early ’90s, aside from the state-owned heavy industries, China’s manufacturing consisted of light industries using what was generally considered lower-end technology—textiles, bikes, shoes, etc. In the mid ’90s, China got into PCs and electronic assembly. Now it is building up critical components industries, such as semiconductors.

In expanding the size, the technology, and the range of its manufacturing, China is doing what Japan and the smaller countries in East Asia did in the decades after World War II. In the process, China is, to a significant extent, out-competing other Asian countries and taking over the position that the other countries, including Japan, enjoyed in the world supply chain.

What should the other Asian countries do? Basically, the companies in the other countries have responded with a two-part solution. First, move manufacturing to China when economics

requires and politics permits. This part of the solution has met with reasonable success, at least from the companies' point of view—indeed, companies' very success has led to slower growth for their home countries' economies.

The second part of the solution is to create a new business model or business that will allow the company to continue to operate competitively in the home country. This new model or business might be variously described as more marketing-

oriented, more knowledge-based, or higher value-added. Many companies in Asia are attempting this. Even companies in China are trying to upgrade to higher levels of value-added as they gradually capture more and more older-style manufacturing.

But to succeed in creating new business models and businesses requires lots and lots of innovations, entrepreneurship, and investments. Do the countries of Asia have the educational system and social culture to spawn the necessary innovations and entrepreneurship? Do they have the financial institutions to provide the investments? Do the governments maintain enough of a level playing field, so that small entrepreneurial companies don't get snuffed out or gobbled up just when they begin to have a little success?

Social, cultural, and institutional challenges create their own limits to economic growth, which are quite different from the limits imposed by environmental and natural resource constraints. Faced with these challenges, constant self-renewal—as the United States seems capable of—appears to be the only way to keep lifting the economic plateau. Japan reached a high plateau in the late 1980s and has stayed there since then. Will it lift itself to a higher one? Each of the four little dragons seems to have reached its own plateau in the years after 1997–98. Will they lift themselves to higher plateaus? It's hard to be optimistic, because societal, cultural, and institutional transformations are difficult and take a long time.

But one waits and sees.

