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Focus Issue: The Big Emerging Markets

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The Big Emerging Markets

During his tenure as Under Secretary of Commerce, the author was one of the architects of the Clinton administration's Big Emerging Markets policy under Secretary of Commerce Ron Brown. He is now dean of the Yale School of Management. The Clinton policy emerged out of a growing conviction that some ten markets will account for the overwhelming growth potential in world imports, not to mention commensurate growth in economic and political influence around the world. These markets include, in Asia—the Chinese Economic Area (China, Hong Kong and Taiwan), South Korea, Indonesia and India; in Africa—South Africa; in Central Europe—Poland and Turkey; and in Latin America—Mexico, Brazil and Argentina. The administration concluded that, because many of these countries still have important state sectors, and because virtually all are focusing heavily on infrastructure projects that demand the involvement of local governments, U.S. companies need the U.S. government at their side to win a fair hearing. What is more, because of the intensity of foreign competition and the capital demands on these countries, international competitors will be public/private partnerships in which foreign governments provide concessionary financing and aggressive advocacy to support their companies' efforts.

This presentation is based on the author's speeches during his tenure as Under Secretary for International Trade of the U.S. Department of Commerce, June 1993 to October 1995.
We have especially tried to target, thanks in large measure to Secretary Brown, not just our traditional markets, but the Big Emerging Markets, the markets of the 21st century. Places like China and Indonesia, Mexico and Brazil. In a departure from the behavior of previous administrations of both parties, we have unashamedly been an active partner in helping our business enterprises to win contracts abroad.

President Bill Clinton

This administration is working both at home and abroad establishing and expanding partnerships that will fuel growth, new jobs and higher standards of living for people throughout the world. To this end, we have been looking at areas with the greatest potential for future export growth and have identified 10 that fit the profile of the Big Emerging Markets.

Ronald H. Brown, Secretary of Commerce

Discovering the BEMs

During the first year of the Clinton administration, a good deal of analysis was conducted to answer the questions, “If we look toward the next century, where will we find the engines of American growth? What markets hold the most promise? What is the role of the U.S. government in helping to ensure that we realize that promise?” Although such questions seem rational enough, as far as Washington has been concerned in past years, they have rarely been pursued in the international economic arena, let alone answered. Nevertheless, the Clinton administration broke with past patterns. It put an enormous amount of effort into looking over the immediate horizon and came up with some interesting—and powerful—conclusions.

We found, for example, that the markets in Europe and Japan will be growing much more slowly over the next two decades than a good deal of the rest of the world. Moreover, we discovered that, despite optimism about future prospects throughout East Asia and Latin America, the countries that will account for the overwhelming incremental growth in the world imports number fewer than a dozen, which we called the Big Emerging Markets, or BEMs. The BEMs are in Asia—the Chinese Economic Area (China, Hong Kong and Taiwan), South Korea, Indonesia and India; in Africa—South Africa; in Central Europe—Poland and Turkey; and in Latin America—Mexico, Brazil and Argentina (see Chart 1).

We also found that success in these markets will require a complete rethinking of our approach to trade. Because these are emerging markets, they are constantly changing and occasionally unstable. They do not have the established ties to the United States that our traditional partners have had. Relations with them are volatile. And, because of the enormous promise of these markets, they are a magnet for the world’s most competitive companies from the U.S. and abroad.

In each, competition will be fierce. But because many have important state sectors, and because virtually all are focusing heavily on infrastructure projects that demand the involvement of local governments, U.S. companies will need the U.S. government at their side to win a fair hearing. What is more, because of the intensity of foreign competition and the

Jeffrey E. Garten, former Under Secretary for International Trade at the United States Department of Commerce, is Dean of the Yale School of Management.
### Chart 1

**BEMs at a Glance**

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (millions)</th>
<th>Total Area (millions of square km)</th>
<th>1995 GDP (billions)/projected $</th>
<th>1993–95 Average GDP Growth (projected, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>34</td>
<td>2.8</td>
<td>328</td>
<td>4.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>159</td>
<td>8.5</td>
<td>942</td>
<td>5.0</td>
</tr>
<tr>
<td>Chinese Economic Area</td>
<td>1,216</td>
<td>9.6</td>
<td>3,460</td>
<td>11.2</td>
</tr>
<tr>
<td>India</td>
<td>920</td>
<td>3.3</td>
<td>1,254</td>
<td>5.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>190–200</td>
<td>1.9</td>
<td>578</td>
<td>7.1</td>
</tr>
<tr>
<td>South Korea</td>
<td>45</td>
<td>.265</td>
<td>265</td>
<td>7.3</td>
</tr>
<tr>
<td>Mexico</td>
<td>92</td>
<td>2.0</td>
<td>621</td>
<td>0.4</td>
</tr>
<tr>
<td>Poland</td>
<td>39</td>
<td>.312</td>
<td>212</td>
<td>4.6</td>
</tr>
<tr>
<td>South Africa</td>
<td>44</td>
<td>1.2</td>
<td>320</td>
<td>2.4</td>
</tr>
<tr>
<td>Turkey</td>
<td>62</td>
<td>.781</td>
<td></td>
<td>1.3</td>
</tr>
</tbody>
</table>

*Source: United Nations and IMF*

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capital demands on these countries, our competitors will be public/private partnerships in which foreign governments are providing concessionary financing and aggressive advocacy to support their companies' efforts. If we don't do the same, we will lose not only our chance to succeed in these markets but our chance to remain the world's economic leader into the next century.

**BEMs in the Headlines**

Last year, every newspaper in America ran daily stories chronicling the U.S. negotiations with Chinese officials over illegal trade in pirated compact discs and computer software. Why? Because the issue is central to the future well-being of hundreds of thousands of American workers and to our prospects in a market of 1.2 billion consumers with a voracious appetite for the information products in which we are the world's leader.

When Mexico stumbled and the value of the peso plummeted in December 1994, the President reacted swiftly and decisively. Why? Because just as Mexico is already the third largest consumer of American exports and growing fast—over 20 percent in 1994, the first full year of NAFTA—it promises even more for the future. In 1994, direct foreign investment in Mexico rose almost two-thirds over the year before. Whatever problems came at the end of the year, Mexico remains a market that is much richer in resources than it was 12 months earlier, and that means much for tomorrow. More jobs for us and our children. Mexico's growth enhances our growth. And just as its stability enhances our stability, so too would its instability undermine our own security. As we realize the promise of closer cooperation and more openness, we also accept that our destinies become more intertwined.

South Africa is more than an inspiring story. It is a nation that represents the last best hope of a continent. Almost half of Africa's GDP is generated in South Africa, almost three-quarters of the GDP of southern Africa. Should the bold experiment of Nelson Mandela and the new nonracial democracy that he has shepherded into existence fail, the consequences would be devastating for the entire continent.

Brazil, South America's largest and most populous country, has long been a beacon for international investors drawn by sheer potential. In fact, the old joke had it that "Brazil was the country of tomorrow... and always would be." Not long ago, the country was wracked with problems: coups, inflation, aching poverty. Then, last year, something...
more momentous began to happen. Real economic reform came to Brazil, first in the form of a new currency, the "real." At the same time, Brazil began playing a new influential role in the region, becoming one of the undisputed Latin American leaders in the run-up to the Summit of the Americas by adopting a new outward-oriented posture and winning strong support from nations throughout the hemisphere. It is possible that Brazil just might be the country of tomorrow...today.

Turkey has been the crossroads of the world since Alexander. In recent years, an economic renaissance made the Istanbul stock market one of the most attractive in the world. Now, Turkey has entered a period of difficulties. But no matter how you look at it, Turkey will play a pivotal role in our future, for it is both the link and the buffer between Europe and the Middle East, between Europe and the southern tier of the former Soviet Union. It is at the border between the developed and developing worlds, on the front line in the dynamic exchanges that will define the nature of the next century.

What could be more remote to most Americans than Indonesia, a string of 13,000 islands located on the opposite side of the world? Yet last November the President of the United States led a high-level U.S. delegation to the Asia Pacific Economic Cooperation (APEC) leaders’ meeting held in Jakarta. Headlines about human rights problems surfaced at the time of the meeting, as did stories about workers' rights. The President did not shirk from addressing these issues. At the same time, however, he presented our strong desire to see change happen in the context of a new approach. He determined to base our relationship with Indonesia and countries like it on the enormous interests we share. Moments before the President's major address in Jakarta, Secretary Brown presided over the signing of approximately $45 billion in deals between U.S. and Indonesian companies, including one energy deal worth $35 billion alone. In his speech, President Clinton spoke about Indonesian President Suharto's leadership in getting the 18 nations of APEC to agree to free trade within the region by the year 2020, with free trade among the developed countries by 2010. The President recognized that we were drawn together. He identified the broad range of issues—political, social and environmental as well as economic—on which we were slowly achieving consensus, and acknowledged that the promise of closer ties and more open borders was driving us toward more progress.

The Economic Stakes

Our economic stakes in the BEMS are enormous. Our calculations indicate that by the turn of this century the 10 BEMS as a group will be importing more from us than either Japan or the European Union (see Chart 2). Well before the year 2010, their imports could exceed those from Japan and Europe combined. In fact, during the period 1990–2010, the BEMS could account for $1 trillion in incremental U.S. exports.

Our exports to the BEMS totaled $106 billion in 1992, approximately a quarter of total U.S. exports. But while the ratio of BEM GDP to the industrialized world's GDP is one to four today, it will be one to two in less than 20 years. BEMS are likely to more than double their share of world imports as well, rising to nearly 27 percent by 2010. No other category of market shows such dra-
mromatic growth potential (see Charts 3 and 4). From Seoul to Bombay, plans call for well over $1 trillion of infrastructure projects in the next 10 years—in energy exploration and generation, airports and air traffic control systems, phones and satellites, hospitals and health care services, auto and auto parts production, banking and insurance and environmental clean-up. At least half that much is projected for Latin America. These mega-deals portend massive trade and investment opportunities for U.S. companies. The case for the magnitude and importance of these changes has been supported by many sources.

The Organization for Economic Cooperation and Development (OECD) has estimated that if just three of our Asian BEMs—China, India and Indonesia—grow by an average of 6 percent a year through the year 2010 (well within our projections), by that year approximately 700 million people in those countries will have an average income equivalent to that in Spain today. This is a group of people roughly equivalent in size to the population of the U.S., Japan and Europe added together. The World Bank, using its purchasing power parity evaluation of the size of economies, has estimated that in 1992 only three of the world's ten largest markets were BEMs, whereas by 2020 six of the ten will be BEMs. Just as important, any survey of these BEMs will reveal that these countries—all problems we may have with them aside—are far more open to imports than Japan and the Asian Tigers were when they were at roughly the same place in their development. So, their rapid growth offers an immediate opportunity for us and is likely to have a major immediate impact on global growth, integration.
and even the underlying dynamics of international relations.

To illustrate the importance of these changes from another perspective, we need look only to the fact that in the first three years of this decade America’s exports to developing countries grew at an average of 12 percent a year, while those to our traditional trading partners crept forward at only 2 percent per year. One recent article noted that, for the first time, developing economies in the early 1990s were helping to pull the rich countries out of a recession.

The Clinton administration certainly understands the limitations of long-term economic projections and also the possibility that economic policies in certain BEMs could fail. The administration’s outlook, in fact, is based on some critical assumptions, such as the belief that world trade will remain open and continue to expand, and that policy reforms initiated in the BEMs will continue. The BEM list is, therefore, one that could evolve depending on trends. If the Russian economy really turns the corner, it could be added to the list. Certain rapidly growing economies such as Thailand might also join this group. Some day, some countries might “graduate,” having completed their emergence into the ranks of the world’s developed nations. By the same token, it is also possible that a country that endures a prolonged setback might be taken off the list.

Let me describe the BEMs another way: in Latin America, two BEMs—Mexico and Brazil—account for 61 percent of Latin America’s GDP and 53 percent of its population. Two Asian BEMs—China and India—account for 40 percent of the world’s population. In Africa, one BEM—South Africa—accounts for 45 percent of the entire continent’s GDP. Poland is Europe’s fastest growing major economy, and Indonesia is the world’s fourth most populous nation.

In this sense, the BEM category is illustrative of a certain kind of market. They have large territories. They have big populations with massive future demands for infrastructure, like power generation and telecommunications, and consumer goods, like computers and washing machines. They are countries that have undertaken significant economic policies that have already contributed to faster growth and expanding trade and investment with the rest of the world. They aspire to be technological leaders. They are markets whose economic growth would have enormous spillover in their respective geographical regions. They all have significant political influence in their backyards and beyond.

The Clinton administration didn’t discover the BEMs, of course. They have been emerging on the world scene for years, and quite a few big U.S. companies have been active in them for a long time. In fact, Americans noticed the BEMs precisely because some of the more farsighted U.S.-based firms were moving into these markets already. But the U.S. government has only recently begun to focus on them—not as foreign policy problems, as they have often been perceived—but as major and essential opportunities for future cooperation.

The Stakes Are Not Just U.S. Sales

While the underlying rationale for the BEM strategy relies in large part on the opportunities for American exports, it would be a major mistake to look at the BEMs only through that lens. Every aspect of the world we live in will be heavily influenced by what the BEMs do. There is no scenario for containing nuclear proliferation without the cooperation of the Chinas, the Indias and the Brazils of the world. There is no hope for protecting the environment if the BEMs are not on board. The future of trade liberalization, and the possibilities for meaningful monetary arrangements, will both require the inclusion and cooperation of the BEMs. The international institutions on which we increasingly depend will be more and more influenced by BEM policies and perspectives.

Thus, there is a direct link between the BEM focus as a tool for increasing our market share abroad and the U.S. role in shaping the world’s destiny. If we fail in our commercial battles for these markets, we also give up our most powerful tool for influencing them, growing closer to them and helping to ensure their future stability through prosperity.
The Role and Policies of the U.S. Government

There is an important role for our government to play in helping to stimulate trade with each of the BEMs. The BEMs are unlike our more traditional trading partners, such as the United Kingdom or Germany. There are frequently severe barriers to entering these markets, including high tariffs, quotas and protectionist regulatory barriers. Commercial systems, including full respect for intellectual property rights, smoothly functioning capital markets and open government-procurement procedures, are often still developing or lacking altogether. In some of the BEMs, impartial legal systems are missing, too. And, as noted earlier, the nature of the competition we face in these markets is dramatically different from what we have known in the past.

In these markets, therefore, we can and should help U.S. businesses in a variety of ways—from securing market access, to providing financing, to supporting U.S. companies seeking to win major projects on deals in which foreign governments are helping their firms or play an important decision-making role in awarding projects. In addition, good information on the BEMs is often in short supply, and through our embassies and our Foreign Commercial Service, we can marshal and analyze much of what is available and provide it to our firms. Finally, we need to work with the governments and private sectors of the BEMs to assist them in developing the skills and institutions to build open, modern capitalist systems. The approach must not be patronizing, but based on common goals of expanding trade in their markets and our own. It is, of course, much easier to proclaim a policy than it is to implement it. In the past year, however, a great deal has already been accomplished.

Elevating the Importance of Exports

Perhaps the most important achievement so far has been the evolution in the executive branch of an intense export consciousness. Export promotion has moved out of the shadows of trade policy and into the limelight. This is evidenced by the significant deregulation of export controls in areas such as telecommunications and computers; in the expansion of trade—financing facilities to meet fierce foreign competition; in the aggressive support the administration has given to U.S. firms bidding on big projects in countries such as China, Brazil and Saudi Arabia; and in the establishment of several major export assistance centers around the United States where trade promotion and trade financing services are offered for the first time. Indeed, with these policies in place, and with more to come, the U.S. can anticipate a major expansion of sales abroad, with exports alone reaching well over $1 trillion by the year 2000, supporting some 6 million additional jobs (see Charts 5 and 6). These exports will also help reduce our chronic and (until now) growing trade deficit (see Chart 7).

A focus on the BEMs is a crucial and pervasive part of this export push. It is not a substitute for continued efforts to open markets and promote American sales in Europe, Japan and Canada, nor does it mean we will let up on commercial efforts to draw closer to Russia, the other newly independent states or entire regions such as Latin America and Southeast Asia.

Chart 5

U.S. Export Growth: Trajectory Has Sharply Increased (Incremental Gain of Nearly $200 Billion)

<table>
<thead>
<tr>
<th>Billions of Dollars</th>
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<tbody>
<tr>
<td>1980</td>
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<tr>
<td>1982</td>
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<tr>
<td>1984</td>
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<td>1986</td>
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<td>1996</td>
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<td>1998</td>
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<tr>
<td>2000</td>
</tr>
</tbody>
</table>

1995 Projection of 9.5% per year
1990-94 growth rate of 6.7%

Source: International Trade Administration, U.S. Department of Commerce

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But a BEM strategy deserves special emphasis and requires an extraordinary effort, because it represents a radical departure from traditional policies and because it is oriented way beyond the usual government-policy time horizons. The focus of this strategy is more intense, and its implementation is more aggressive, than any export strategy the United States government has mounted.

Cabinet-Level Attention

The BEM concept has been regularly cited by President Clinton and discussed and refined in cabinet-level gatherings. It has been endorsed by 19 agencies, the National Economic Council and the National Security Council in the cabinet-level Trade Promotion Coordinating Committee. It is driving the future orientation of not only the Department of Commerce’s trade apparatus, but also many of its international technology programs. The Export-Import Bank is orienting many of its programs towards the BEMs, as is the Overseas Private Investment Corporation (OPIC).

In addition, the foreign itineraries of the Clinton cabinet and sub-cabinet show increasing emphasis on the BEMs. Secretary of State Warren Christopher could have been expected to visit most of these countries anyway, but Secretary of Commerce Ron Brown visited nine of the ten BEMs in 1994. On his first major trip abroad, Treasury Secretary Rubin visited two of them—Indonesia and India. Secretary of Energy Hazel O’Leary traveled to India and China last year and returned to both countries in early 1995. Poland, Indonesia, India and South Korea have been on the well-worn path, too. Ken Brody, chairman of Ex-Im Bank, likes
to say that his itineraries follow the BEMs. Ruth Harkin, president of OPIC, has also traveled widely in them.

**Linking Strategy to Business and the Broader Public**

*Dialogue with Business*

Beyond high-level discussions and travel, the administration has instituted extensive dialogue with private groups. Secretary Brown asked groups of CEOs from a wide range of businesses to attend conferences with him and other top administration officials to discuss issues related to the BEMs. On these occasions, U.S. government officials do more listening than talking. Representatives of the Department of Commerce hear how U.S. firms have been approaching the new markets, the problems and the opportunities they see, the help they want from the U.S. government and the help they *don’t* want.

*Public Discussions*

During my tenure, we also hosted a series of meetings with business groups around the country. New Export Assistance Centers, from Long Beach, California, to Baltimore, Maryland, are now gearing up to disseminate information and engage in consultations on BEMs with firms of all kinds. The Department of Commerce is leading discussions in dozens of additional cities, from Los Angeles to Atlanta, and from Minneapolis to San Antonio, concerning our BEM strategy. Companies and universities are offering ideas for technical assistance programs in the BEMs.

The administration’s efforts to reach beyond the Beltway is just beginning. There is, however, a need to do much more with medium-sized and small businesses, and with labor. It will take years to build up a mindset that we, as a country, need an export strategy that looks beyond the next year or the next election cycle.

*Pilot Projects*

Lack of time and adequately trained people, and severe budgetary limitations make it impossible to do everything at once. We have, therefore, instituted several pilot projects. The idea is to experiment in individual BEMs with new policies and programs, with the ultimate intention of transferring what works from one country to another, with appropriate modifications for individual circumstances.

**Country Strategies and Country Teams**

For decades, agencies of the executive branch have been notorious for pursuing many different commercial approaches to a particular country with little or no coordination. Every administration has tried to fix the problem. At last, we are making significant progress. A successful BEM strategy requires fully coordinated export strategies toward the 10 countries.

*Example: Indonesia*

Indonesia was the first test case developed under the BEM strategy (see Chart 8). We selected it because it holds enormous importance for us in the most dynamic region of the world, and because virtually every one of our export promotion programs is operating in this country already.

We began with a far-reaching interagency study of U.S. commercial interests in Indonesia through the year 2000. The analysis examined how U.S. firms had been doing over the last decade; it evaluated the efforts of U.S. agencies in working with them; and it took stock of how

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**Chart 8**

**Highlights of Indonesia Strategy**

- Coordination of financing for large projects among OPIC, Ex-Im Bank and TDA.
- Focus on opportunities in such sectors as power generation, automotive, aerospace, computers and information technology, and health care technologies.
- Establishment of U.S. Commercial and Information Center.
- Negotiation of a Trade and Investment Framework Agreement.
- “Matchmaker” missions to Indonesia under aegis of U.S.-ASEAN Alliance for Mutual Growth.

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foreign competition had been performing. We noticed, for example, that although we had large Indonesia programs sponsored by Ex-Im Bank, OPIC and other agencies, they were not well coordinated. Moreover, despite the resources we were pouring into Indonesia, we were still losing market share to Japan, Europe, and several other Asian countries.

The study zeroed in on those sectors and projects that held the most promise for U.S. firms, relating them as best as possible to the potential benefits to the U.S. economy. On the basis of this examination, a subcabinet trip was made to discuss the findings with the American Embassy and the U.S. business community in Indonesia. Consultations were held with Indonesian government officials and local business leaders to see how they perceived the U.S. effort. An interagency task force was then reconvened to formulate a strategic plan.

The strategy is now unfolding. It will take time to evaluate, but we have already begun to roll out similar efforts for Argentina, China, India and other BEMs.

Big questions remain, of course. It will be important to measure the success of what we do, but concrete results stemming directly from government action will not be easy to separate from the efforts of the competing firms themselves. However, at a time when the effectiveness of all U.S. government programs is, rightfully, under intense budgetary scrutiny, we must put a premium on strong performance.

This administration’s entire export promotion program is geared toward performance and the measurement of performance. In the old days, export promotion meant exhortations to “buy American.” Today, export promotion zeroes in on specific deals. With this new focus, we can better marshal our limited resources and measure the results in concrete terms to decide whether those resources are being used wisely. We can determine just how much was spent to achieve a particular aim.

**Example: Brazil**

In light of the Cardoso administration’s commitment to pursue further economic reform and stabilization, the outlook for a stronger U.S.-Brazil commercial partnership has never been more favorable. Although market access barriers—including government monopolies in such sectors as telecommunications, mining, petroleum and electrical energy and restrictive government procurement practices—continue to pose problems for U.S. firms in Brazil, we are determined to do everything we can to help the U.S. private sector reap the tremendous commercial opportunities that Brazil offers, while at the same time helping to promote Brazil’s economic development.

For instance, thanks in large measure to strenuous U.S. advocacy efforts in Brazil—involving not only the secretary of commerce and the heads of a number of other U.S. departments and agencies, but ultimately the President as well—the Brazilian government selected a U.S. consortium (led by Raytheon) to build a $1.4 billion Amazon environmental surveillance and air traffic control system known as SIVAM. (The project is now awaiting action by Brazil’s senate.) We are also monitoring closely opportunities to participate in such projects as the Brazil-Bolivia natural gas pipeline, clean-up projects for the Tietê River, Guanabara Bay and Guaíba Bay, the Tiete-Parana Waterway project and the Sao Paulo metro expansion.

A major thrust of our Brazil strategy is the development of public/private partnerships. An example is the memorandum of understanding signed by Secretary Brown and ADTP (Authority to Develop the Tiete-Parana Basin) President Quintella in 1994 to strengthen commercial ties and promote U.S. private sector interests in the development of the Tiete-Parana Valley. The area will be the focus of transportation and power infrastructure projects over the next 10 to 20 years, with a value as high as $30 billion.

More recently, the U.S. and the Brazilian government co-signed terms of reference establishing a U.S.-Brazil Business Development Council (BDC). The BDC will aim to enhance public/private sector cooperation between the two countries. The first meeting of the BDC was held on June 29, 1995, during the Hemispheric Trade and Commerce Forum in Denver, Colorado. A number of senior U.S. and Brazilian government officials participated, as well as some 25 private sector representatives from each country. At the same time, a major seminar took place on the Tiete-Parana projects, attracting hundreds of business people to talk about opportunities to create jobs in America from a waterway in the Southern Cone.
1995 Strategy for Mexico: Key Elements

- Attention to completing environmental and other infrastructure projects at border.
- Assisting U.S. firms to participate in upcoming Mexican privatization.
- Counseling U.S. firms on customs and other procedures for entering Mexican market.
- Possible expansion of U.S. Trade Center in Mexico City.

Other Countries:
Examples of the strategy for some other BEMs are shown in Charts 9 and 10.

Big Emerging Sectors
Part of every country strategy is a focus on selected industries where U.S. exports have particularly good prospects. In our in-depth studies on Indonesia, China, Argentina and Brazil, and from additional research, we have formulated a vision of the areas where the BEM imports are likely to be greatest.

Several clusters of industries are high on the list. They include the following:

- Information technology, including telecommunications, computers and software;
- Environmental technology, including pollution control equipment and consulting services;
- The transportation industry, including aviation, automotive trade and the services and equipment needed to build modern rail systems and airports;
- Energy technology, especially for the soaring demand for electric power;
- Health care technology, including advanced medical equipment, pharmaceuticals, biotechnology and hospital-management services;
- Financial services, including banking, insurance and the securities business.

Like the BEM category itself, these Big Emerging Sectors are illustrative. We also have a great interest in advanced materials, the chemical industry and industrial machinery, for example, all of which could be added to the initial list (see Chart 11).

A sectoral strategy is not an "industrial policy." It does not involve subsidies. It does not rest on a notion of picking winners and losers, but rather it supports those industries where we know markets abroad are expanding, where the U.S. is already doing well and where it could do much better with additional government help.

Bilateral Commercial Dialogues
It is important to remember that the BEMs are up-and-coming markets that are trying to modernize their commercial infrastructures very rapidly. No two are in an identical situation, but many need to strengthen their systems for protecting intellectual property rights; many need to make progress in opening their markets to foreign goods and services, both for imports and for foreign investment; and many need to build up a better regulatory framework for such industries as telecommunications and finance.

While the International Monetary Fund, the World Bank and other international institutions can provide

1995 Strategy for Poland: Key Elements

- Increasing U.S. company awareness of the attractiveness and potential of the Polish market and of specific commercial opportunities (e.g., "Step into Poland" program).
- Assisting U.S. companies in overcoming obstacles and securing business via advocacy efforts and small business support facilities.
- Reducing market access barriers by eliminating tariff discrimination and other barriers to trade and investment.

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assistance in these areas, stronger bilateral links between Washington and each of the BEMs are critical. The U.S. has a wealth of technical expertise and policy experience to impart. Moreover, we have a strong interest in the commercial links that can be developed through this kind of interaction. In the Cold War, ties between the United States and many of our friends in the world were developed through military exchanges and training programs. Now, and in the future, the most important links will not be men in uniform carrying weapons, but men and women in suits carrying laptops.

For this reason, the U.S. government has set up special commercial forums with several of the BEMs, under which a broad range of common concerns can be addressed. To date, participating countries include South Africa, Argentina, Brazil, India and China (see Chart 12). All have a significant role to play in helping to build solid commercial institutions, but they are structured in diverse ways, with somewhat different agendas. All have a sectoral industrial component—a focus on telecommunications, energy, financial services, etc.—so that commercial matters relating to the promotion of trade and investment have a particular “real world” focus. Some are heavily involved with the U.S. and foreign private sectors.

**Example: The U.S.-China Joint Commission on Commerce and Trade**

A good example of such a forum is the U.S.-China Joint Commission on Commerce and Trade (JCCT). The JCCT, established in April 1994 during the Washington, DC, visit of China Trade Minister Wu Yi, provides an important venue for China and the United States to identify problems and seek long-term remedies outside the glare of heated trade negotiations. It provides an opportunity for the United States to offer technical assistance in such areas as building a framework for intellectual property rights, upgrading environmental standards or instituting a system of export controls on sensitive technology in a way that is agreeable to both sides.

The ninth session of the JCCT took place in July 1995 in China. The major focus was on expanding trade and investment, including easing the way for U.S. firms regarding critical infrastructure projects. Other initiatives include (1) the unveiling of
the U.S.-China Management Education and Business Leadership Program, a bilateral training initiative to teach trainers about management concepts, to be held at Fudan University in Shanghai (topics will include training on intellectual property rights and environmental awareness); (2) announcement of the U.S. Commercial Center site, also in Shanghai; (3) establishment of a U.S.-China BDC; (4) recognition of the State Planning Commission’s ongoing involvement in the JCCT, including its role as vice chair; and (5) establishment of an ombudsman function at the municipal level for investor issues. Other highlights will include emphasis on finance, intellectual property rights, the environment, standards and defense conversion in the context of our business development working groups.

Example: Business Development Councils

Similar forums with other countries will have a much larger private sector component. Recent years have seen the establishment of U.S. BDCs with Argentina, Brazil and South Africa and a U.S.-India Commercial Alliance. BDCs, which are joint business-government endeavors, are aimed at strengthening business ties and trade between the member countries and will provide the respective private sectors with an avenue for recommending government action that will stimulate more extensive commercial relationships.

Importance of Technological Cooperation

As we think about the evolution of our commercial relationships with the BEMs, it becomes clear that the technological component looms increasingly large. Almost all of the BEMs see themselves as becoming technological leaders in their regions, and all have that potential. The Indonesian government is preoccupied with developing 21st-century telecommunications facilities. In China, India, Brazil, South Africa and South Korea—to take a few examples—the technological infrastructure is already highly developed. A host of important issues arise for the United States: how to integrate technology into the trade discussions; how to foster the kind of economic development in the BEMs that comes with the availability of advanced technology while not giving away our commercial advantages—all against the backdrop of fierce commercial competition from France, Germany, Japan and others. Who will be supplying similar technology? And, of course, how to control the transfer and sale of civilian high technology that also has military applications. We are planning to integrate technological communications into all of our commercial discussions, but the approach naturally will vary by country.

Need to Consider Training Programs

In all of our commercial efforts, we have become aware that commercial policy means much more than trade or exports or financing. One of the major constraints facing many of the BEMs is the lack of trained people to manage modern enterprises, public or private. We believe that the United States has a lot to offer in this regard, through both our government and private sector.

We recently followed up with officials in Shanghai on Secretary Brown’s announcement last August of plans to develop a pilot training program in China. After extensive discussions, we reached agreement with Fudan University to train managers to meet the needs of China’s transition to a market economy and to support the management needs of the growing numbers of Sino-American joint ventures. In addition to providing management education training, we propose to make available information and undertake training on the broader issues associated with managing and sustaining economic growth and a healthy investment environment, such as market economics, financing, intellectual property rights and comparative legal systems. To carry out this program, we envision the creation of a Curriculum Development Center, a Management Training Institute and a Distance Learning medium for disseminating curriculum information. We plan to seek the support of U.S. and Chinese academic institutions and private sector firms for resource assistance and their expertise and wisdom.

We also want to take advantage of the phenomenal technology that the United States now possesses for im-
Commercial Centers

In all the BEMs, we hope to create special commercial centers outside the American embassies. The idea is to elevate the commercial objectives of our foreign policy by enhancing U.S. trade promotion facilities and by making them more accessible to American and foreign business people.

Example: Sao Paulo, Brazil

The prototype is the new facility in Sao Paulo, Brazil, opened by Secretary Brown last summer (see Chart 13). Located in the central commercial district, this four-story building makes available to business people from the U.S. and Brazil a comprehensive commercial library with the latest computerized databases on the two countries. It houses the U.S. and Foreign Commercial Service, and provides one-stop export advising services. One floor is reserved for the exhibition of U.S. products. There is an auditorium with simultaneous translation capability for company presentations. The center has become a magnet for American trade fairs and missions and for U.S. business people needing help in penetrating the Brazilian market.

Chart 13
Highlights of Brazil Commercial Center

- Each day, 10–15 firms visit the Center.
- Each day, the Center receives 50–70 phone calls requesting advice.
- Each day, the Center receives approximately 60 faxes requesting advice.
- During FY 1995, the Center has sponsored 7 trade and Matchmaker missions.
- During FY 1995, the Center has held more than 30 other trade promotion events.

parting information—technology that is nowhere so advanced as it is here. Our corporate sector has all manner of training programs that can be beamed around the world via satellite, for example. We are in a position to have a global classroom for a global market.

The concept of expanded training, while providing many benefits to China, is not a purely altruistic venture by any means. Managers and technicians trained by Americans are surely apt to be inclined to buy American goods and services. In addition, one of the major problems for U.S. firms in China is lack of Chinese personnel who have the requisite skills.

It would be misleading to say that we have all the answers—or even many of them—to this complicated issue. But this much we do know: in the 1950s, 60s and 70s, a good deal of our ties with key developing nations revolved around military training and exchanges. Now, and in the 21st century, the rules will be different. And just as our armed services brought more than military training, so will the links brought about by people-to-people contact in the commercial areas carry with them much broader benefits to both sides. The value of training is never just to facilitate the exchange of products and services. It is about the exchange of ideas and ideals as well. It helps build bridges to span the political, economic and cultural gaps that separate us and them.

Other Issues

There are other difficult issues, too. In our bilateral commercial dialogues with the BEMs, we are combining a focus on immediate and longer-term trade issues—on market access today, and on building the commercial infrastructure for tomorrow. At times, therefore, we have to manage the delicate balance of the threat of trade sanctions, for lack of market access or inadequate enforcement of intellectual property rights, with more cooperative discussions of, say, promoting investment in the automotive or computer industries. The tensions require governments on all sides to balance immediate problems and long-range opportunities. It's not always easy to do.

Summer 1996
Examples: Jakarta, Shanghai

Last November, Secretary Brown opened another commercial center in Jakarta. We are opening a center in Shanghai in 1996. Down the road we are considering similar facilities for India.

Financing and Government Support for U.S. Firms

A major reason why the BEMs constitute such important markets for us is that some of the world’s largest infrastructure projects will be mounted in these nations, with billions of dollars in potential sales for U.S. companies. However, in most instances the projects are awarded by governments, or are under heavy government influence. This means that the bidding process is highly political, and that companies vying for contracts often receive help from their own governments, particularly in the area of long-term financing. Before 1993, Washington’s support for American business had been episodic at best. President Clinton, Secretary Brown and others have instituted a radical change in this policy, mounting the most consistently aggressive effort on behalf of U.S. firms in memory (see Charts 14 and 15).

The Commerce Department has set up a special Advocacy Center to track the largest projects around the world and to work closely with the other agencies—State, Treasury, Ex-Im Bank, OPIC and the Trade and Development Agency (TDA), to name a few—to marshal all the muscle in the administration when it comes to winning large contracts. The new policy is what Ex-Im Bank Chairman Ken Brody calls “aggressive defense.” That is, we will never be the first to provide below-market-rate financing in violation of the OECD rules, but if we find other governments breaking those rules, we are willing to match the financing. In addition, we are mobilizing high-level administration support for individual projects—via trips, phone calls and other contacts between administration officials and their counterparts in the governments awarding the contracts.

Suffice it to say we are turning up the heat as never before. But it is vital to note that the issue is not just throwing money at specific deals. The International Trade Administration (ITA) coordinates all the programs of the U.S. government aimed at increasing the competitiveness of U.S. companies via the TPCC (Trade Promotion Coordinating Committee). We can use information from the Commercial Service and the State Department to ensure that Ex-Im Bank, OPIC and TDA put the right financing package together. We can work with Treasury on multilateral institution financing issues or Defense or the Bureau of Export Administration regarding export licensing issues. In each case it is different. But ITA, because of our resources at Commerce and Commerce’s lead role on these issues in the government, has become the quarterback on what is clearly a winning team.
Example: Indonesia

In late 1991, Indonesia announced plans to do what others in Asia had failed to do—initiate an extensive private power program. To achieve this goal, the government decided to invite foreign companies to bid on the first privately financed, build-own-transfer power plant in Paiton, East Java. The project, valued at over $2.6 billion, involved setting up a turnkey operation equal to generating capacity to more than 37 percent of Java’s current electrical supply.

Dozens of companies expressed interest, but in the end only two proposals were submitted. The first was from a U.S. company, International Electric Incorporated (IEI). The second was from an Indonesian consortium, Bimantara, which had partnered with Hopewell Group of Hong Kong. Hopewell, owned by the billionaire industrialist Gordon Wu, was a hands-down favorite given its depth of experience building large power plants in Asia. However, within five weeks after submitting its joint proposal with Bimantara, Hopewell dropped out. Bimantara then approached IEI about partnering on the bid.

The Indonesian government, citing a need for more competition, called for a second round of proposals. A U.S.-led consortium of Mission Energy, General Electric and Mitsui responded. With two bids in hand, the Indonesian government opened negotiations with IEI. The negotiations, after six months of false starts, collapsed completely, paving the way for Mission Energy to negotiate in earnest for the Paiton project.

Over the next twelve months, the U.S. government moved into action to support Mission Energy. The U.S. Ambassador to Indonesia wrote letters of support on behalf of Mission Energy, and sent Washington monthly updates on how the Paiton project talks were progressing. When it looked like the negotiations might stall, our ambassador arranged for the Indonesian Paiton project negotiating team to visit Washington in April 1993 to meet with officials at the departments of Commerce, Energy and State, and at Ex-Im Bank. Secretary Brown, in bilateral meetings with key Indonesian government officials, also raised U.S. support for Mission Energy and sent advocacy letters of support to key Indonesian ministers involved in the project on Mission Energy’s behalf. In early 1994, a small group from the Commerce Department went to Indonesia to promote the project with senior government officials in Jakarta. All of these efforts were undertaken to ensure that Mission Energy had the support it needed. In fact, Mission Energy needed to fight hard to keep its competitors at bay. Companies like Hopewell and others were still hoping they could find a way to get back in.

In the end, the two-year effort to support Mission Energy’s bid paid off. Secretary Brown, during his November 1994 visit to Jakarta, witnessed the signing of the Paiton Power Purchase agreement between the Indonesian government and Mission Energy. According to Mission Energy’s press release, the total value of U.S. goods and services for the project is expected to exceed $500 million, and the project is estimated to support 5,000 U.S. jobs. But the effort didn’t end with the press release. For almost six months thereafter, the final details and negotiations for the financing package were conducted behind the scenes. Only minutes before a final financing deadline did the
U.S. government put together a package that met all the criteria and sealed the deal for good.

**Example: China**

A much broader advocacy effort was mounted in China when Secretary Brown led a Presidential Business Development Mission composed of 24 CEOs to Beijing, Shanghai and Guangzhou. Brown pressed the Chinese president, the premier and other top officials hard to win specific contracts for American firms. Former Treasury Secretary Lloyd Bentsen and other U.S. officials had laid the groundwork with round-the-clock efforts by the Advocacy Center and close coordination between the administration and the U.S. firms involved. Over $6 billion worth of contracts were announced while Brown was in China, and we are hopeful that a good deal more will come to fruition in the months ahead. We certainly will be continuing to push.

The U.S. is playing a tough game, and the stakes are high on many different levels, but we must continue to press hard while avoiding a trade finance war in which governments are fighting to see who can deplete their treasury fastest. That is why we only respond when others provide below-market financing. Our hope is to show that cheating on the OECD rules will cause everyone to pay dearly. We will not stand by and watch others capture markets by subsidizing. The BEMs are the battleground on which these tensions will be played out.

**Global Marketing Network**

The implementation of a BEM strategy is conducted not just by U.S. government agencies, but also by 250 Americans and 700 foreign employees of the U.S. and Foreign Commercial Service stationed in 73 offices around the United States and 130 markets abroad. This entire trade promotion network is now emphasizing the importance of BEMs to interested U.S. firms. They are being armed with important data on the key countries, visits and trade missions.

The Commercial Service is a crucial link for the BEMs strategy, but, as in other areas, budgets are badly stretched. In China, for example, 10 U.S. professionals, working with 31 local men and women, are currently responsible for the entire country. Such a small number of people could scarcely cover the booming southern region alone. In Dalian—a Chinese province twice the size of France—we have only a single U.S. government representative.

In all of the BEMs combined, we have a mere 76 Commercial Service personnel. Some 60 positions around the world are now unfilled due to budgetary constraints, and the need for people is only escalating, particularly in the biggest and fastest growing markets. Training for our men and women abroad is also crucial. We are focusing now on upgrading their knowledge of trade financing, but more specialized skills regarding the Big Emerging Sectors, where technology is changing so rapidly, are also badly needed. But progress is being made. We have just now completed the intragovernmental process by which we can begin to upgrade our resources in China. Over a period of time, we will double our personnel in the world’s largest

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**Chart 16a**

**Financial Assistance to Exporters, 1993**

<table>
<thead>
<tr>
<th>Region</th>
<th>Export Credits and Feasibility Studies</th>
<th>Tied and Untied Aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>$146</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>$35</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>$23</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>$19</td>
<td></td>
</tr>
<tr>
<td>UK*</td>
<td>$9</td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD, Berne Union country reports, ESI, and U.S. Department of Commerce. UK data are probably underreported because reinsurance for short-term business is excluded.
1994 Domestic and Foreign Personnel Engaged in Export Promotion as a Percent of GDP

Source: IMF International Financial Statistics (4/95), and Estimates by Department of Commerce Overseas Offices.
*Figures are difficult to interpret because the government of Japan maintains that its non-financing trade promotion personnel are devoted to import promotion into Japan. ITA believes, in fact, that there is substantial support for export promotion that is supplemented by industry associations with close ties to the government.
**German figures are also likely to be understated since the German government uses German Chambers of Commerce around the world to promote its exports.

Staff per $ Billion of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>Staff per $ Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>3.3</td>
</tr>
<tr>
<td>UK</td>
<td>2.2</td>
</tr>
<tr>
<td>Germany</td>
<td>1.2</td>
</tr>
<tr>
<td>United States</td>
<td>0.3</td>
</tr>
<tr>
<td>Japan</td>
<td>?</td>
</tr>
</tbody>
</table>

Latin America. Our efforts in the BEMs are also carefully coordinated with other administration efforts of a global nature, from our efforts to curb human rights abuse to our similar efforts regarding workers’ rights and nuclear nonproliferation.

Lessons Learned From the BEM Strategy

For more than a year now, we have been pursuing the BEM-focused strategy just described. Over that period, our conviction has grown that this strategy is the right one. At the same time, the dimensions of the challenge we face have become clearer. Dealing with the BEMs requires a new way of thinking and acting in terms of pursuing our interests in the international arena. Academics would call it a “new paradigm” of foreign policy; more simply, we can call it a major shift in our view of the world.

Here are some lessons we have learned (or have had reinforced) from our BEM strategy that will help guide and motivate our relations with the BEMs through the end of this century and beyond.

market—and we will attempt to do the same in other BEMs.

We will be growing, but we will not be outpacing our competition. The U.S. spends less as a percentage of GDP on export promotion than any other developed nation. So, while we are getting smarter and working harder, it is still an uphill battle against better equipped and funded competition (see Charts 16a and 16b).

The domestic part of the network is undergoing major reorganization as we build a new system around some 15 Export Assistance Centers, which bring together under one roof all the federal services and, where possible, state and local export facilities, too. It is an awesome undertaking. Providing export promotion services is often more difficult than many other governmental programs because the global economic environment is changing so rapidly.

Global Initiatives

A final element of the BEM strategy is to add a BEM component to many of the administration’s more global initiatives. A good example is Vice President Gore’s proposal for a global counterpart to the National Information Infrastructure (the “Information Superhighway”). Called the Global Information Infrastructure, the proposal calls for far-reaching telecommunications links among nations in the interests of expanded trade, investment and social development. Several of the BEMs could be prototype “off ramps” of the global highway. We are looking seriously at some possibilities in East Asia and in
Lesson #1: Revising Our Notions of National Security

President Clinton came into office with the conviction that a strong economy at home was a prerequisite for our national security. Secretary of State Warren Christopher admits that economic issues are at the top of our foreign policy agenda. Secretary of Commerce Ron Brown talked about the fact that our economy and our destiny in the world are inextricably linked. It is safe to say that the administration is singing from the same songbook.

Moreover, words are being translated into action. One sign is the overwhelming priority given to NAFTA, GATT, trade negotiations with China and Japan and expanding free trade throughout Latin America and Asia. The establishment of a superaggressive National Export Strategy and a highly organized approach to working with our private sector to win projects abroad is another sign.

It is in the BEMs, however, that commercial engagement and commercial diplomacy are being tested as never before. There are many reasons why this is the case, and why we will need to evolve an ever more sophisticated foreign economic policy to meet these challenges.

- The political leadership in the BEMs is preoccupied with achieving growth as a foundation of domestic stability. This is their number one goal, and unless we are able to relate to them and engage them on economic issues—from trade to banking reform, from building phone systems to training management—we will not have much influence on the other issues we care about, such as human rights and arms sales.

- Most important of all, perhaps, is that without economic progress in the BEMs we could see a world of Bosnia—countries torn asunder, regional instability that not only spells tragedy for millions of people but spills over to the stage of world politics. This is a clear and present danger for the next century. Eight hundred million people unemployed or underemployed in the emerging markets, according to the U.N. Increasing nationalism. Increasing frustration. People with little to lose by resorting to violence to improve their lot. Economic links to the BEMs not only benefit us; they provide hope and opportunity as an antidote to frustration and despair. It is not just a market share that calls us to the BEMs—it is a desire for a more peaceful world.

The ability of the United States to fashion and carry out the right kind of foreign economic policy depends on far-reaching changes in the way we conduct international affairs. From the coordination of policies at home, including the central involvement of the “economic” agencies, to the revamping of embassies abroad; from the education of Congress and the public about the new world we face, to the kind of people who are recruited for the highest levels of our foreign policy establishment, change is required. President Clinton and his cabinet have made a superb start, but this revolution, in my view, has just begun.

Lesson #2: Patience with Change and Instability

We must acknowledge that the BEMs, unlike Europe or Japan, are not mature markets. Their ups and downs will be bigger, their crises more frequent—as the Mexican peso crisis amply attests. But these are not reasons to second guess their importance or our strategy for dealing with them.

Look first to the fundamentals. In contrast to the daily headlines, the underlying momentum of the BEMs is impressive (see Chart 17). Less than two years ago, Brazil’s annual inflation was approaching 2,500 percent per year; by the end of last year it had decelerated to under 2 percent per month. Two years ago, India’s top tariff rates hit 110 percent; in 1994, the ceiling was cut in half. Not long ago, Indonesia was hostile to most foreign investors, but due to deregulation and the removal of onerous restrictions, foreign investment in plants and factories has grown to an annual rate of more than $8 billion, five times the pace of 1987. Since 1990, Argentina—once an example of a state-run, closed economy—has privatized virtually all its major companies, including its national energy company and its national airline. Poland, recovering from negative growth, is today one of the fastest expanding economies in Europe. And let’s not forget how far Mexico has come. In 1990, it was running enormous budget deficits to-
### Chart 17

**Recent Economic Reforms in the BEMs**

<table>
<thead>
<tr>
<th>Country</th>
<th>India</th>
<th>Indonesia</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Eased foreign investment restrictions</td>
<td>Eased foreign investment restrictions</td>
<td>Relaxed foreign exchange controls</td>
</tr>
<tr>
<td></td>
<td>Lowered income tax rates</td>
<td>Reduced tariffs for agricultural products</td>
<td>Eased foreign investment restrictions</td>
</tr>
<tr>
<td></td>
<td>Reduced tariffs</td>
<td>Reformed banking sector</td>
<td>Downsized bureaucracy</td>
</tr>
<tr>
<td></td>
<td>Made currency convertible</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>South Africa</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Eased foreign investment restrictions</td>
<td>Eased foreign investment restrictions</td>
<td>Eliminated price controls</td>
</tr>
<tr>
<td></td>
<td>Adopted unified exchange rate</td>
<td>Liberalized foreign exchange rules</td>
<td>Privatized public sector companies</td>
</tr>
<tr>
<td></td>
<td>Reduced export subsidies</td>
<td>Reformed social welfare system</td>
<td>Reduced tariffs and import quotas</td>
</tr>
<tr>
<td></td>
<td>Reduced tariffs</td>
<td></td>
<td><strong>Mexico</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Turkey</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accelerated privatization program</td>
<td>Eliminated most nontariff trade barriers</td>
<td>Privatized public sector companies</td>
</tr>
<tr>
<td></td>
<td>Eased foreign investment restrictions</td>
<td>Reduced tariffs</td>
<td>Liberalized financial sector regulation</td>
</tr>
<tr>
<td></td>
<td>Reduced import charges/fees</td>
<td>Reduced government economic regulation</td>
<td>Reduced trade barriers via NAFTA</td>
</tr>
<tr>
<td></td>
<td><strong>China</strong></td>
<td></td>
<td>Imposed strict government credit controls</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Chinese Economic Area</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Hong Kong</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pledged IPR protection</td>
<td>Improved securities fraud enforcement</td>
<td>Improved IPR protection</td>
</tr>
<tr>
<td></td>
<td>Reduced tariffs</td>
<td>Centralized bank supervision</td>
<td>Liberalized insurance market</td>
</tr>
<tr>
<td></td>
<td>Systematized tax/trade laws</td>
<td>Created new telecom policy authority</td>
<td>Simplified import licensing</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Taiwan</strong></td>
<td></td>
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</tbody>
</table>

Taling 4 percent of its GDP. In 1994, Mexico had a balanced budget.

A lot has happened in just the last year in the world economy to bolster the long-term prospects of the BEMs. NAFTA was established to provide a long-term framework for expanded trade and investment in North America—which has been and will be of great benefit to Mexico, as well as to the United States and Canada. An agreement was reached among all the democracies of the western hemisphere to move towards free trade arrangements, including more openings for foreign investors, within a decade. The 18 nations of the Asia-Pacific region also committed themselves to move in this direction, albeit over a longer period of time. The European Union is heading toward new trade arrangements with its Eastern European neighbors and with Turkey. The GATT treaty was concluded and a new World Trade Organization was set up that requires developing countries to adhere to all the rules—on lowering tariffs, reducing trade-blocking regulations, enforcing patent laws, treating foreign investors fairly—or face serious penalties.

Furthermore, the BEMs have improved their future by lessening their trade dependence on the U.S. and the West and trading more with one another—a prudent diversification. Trade among the countries of East Asia is growing faster than it is between them and the U.S. Trade among Latin American countries has more than tripled in the last decade.

Understandably, we are mesmerized by the ups and downs of financial markets and by the latest trade battles. Nevertheless, fundamental advances in BEMs in education and technology constitute a more powerful trend. Look at the thousands of Indian engineers who are designing computer chips for leading U.S. firms and beaming those designs overnight.
to California and Texas by satellite. Think about the high-tech industrial parks being erected in Indonesia. Consider the companies from Taiwan, South Korea, Brazil and India that are moving onto the world stage.

This summer we will release an updated analysis of the BEMs. While some of our projections, such as those in Mexico, may have changed somewhat since our last comprehensive BEM analysis in late 1993, we don’t expect major changes for the BEMs as a group.

Mexico may be down today, but many forecasters see growth next year. In any event, we surely underestimated the pro-business changes taking place in the gigantic markets of India and Brazil. Although we may have recurrent trade problems with Beijing, we have achieved some far-reaching agreements, including some on intellectual property rights, and two-way trade continues to expand dramatically.

Moreover, precisely because of the Mexican crisis, other BEMs are becoming acutely conscious of greater scrutiny from financial markets. As a result, they are likely to move faster than ever to balance their budgets, sell off their bloated state-owned companies, reduce reliance on volatile short-term capital, attract long-term investors in manufacturing and services, improve their financial management systems (including disclosure of vital information for investors) and manage their currencies with heightened sensitivities to the world’s capital markets, which have become their lifelines. The result should be more stable economic growth, greater ability to attract private capital and more trade for U.S. firms.

Some of the signs are extremely encouraging. In the midst of major economic strain, Argentina reelected a government dedicated to open markets and continued liberalization. President Cardoso of Brazil continues to push far-reaching reforms despite strong counterpressures. India’s government, rebuffed in local elections, refuses to backtrack on its promise to further open the economy.

If the BEMs fail to follow sound economic policies, the verdict of the capital markets will be rapid and powerful. This lesson was delivered harshly to Mexico and the rest of Latin America, which made the mistake of interpreting an abundance of capital as a permanent vote of confidence in their market reform and liberalization efforts. The figures tell the tale: in 1993, private capital flows to Latin America amounted to $75.6 billion; this year, the flows are expected to plummet to only $1.3 billion! These kinds of sanctions are far more severe—and more effective—than anything the IMF could dream of.

This leads us, however, to the analysis of foreign direct investment, which is much more indicative of the underlying strength of these markets than portfolio flows can be. Portfolio investment has a tendency to overreact in the short term. Foreign direct investment is a different story; not only do brick-and-mortar investments stay put, but they are made on the basis of long-term trends and do not react so fast to business cycles or momentary concerns.

The U.N. estimates that foreign direct investment flows to the world’s developing economies grew from $31 billion in 1990 to $80 billion in 1993. Of the ten largest recipients of foreign direct investment in the period from 1988 to 1992, seven were from the BEMs and the other three were part of the larger ASEAN market, of which Indonesia is one of the largest components.

During the period 1989 to 1993, U.S. direct investment in the BEMs increased from $6.1 billion per year to $13.7 billion, or 125 percent. This can be compared to a 55-percent increase in U.S. investment to all countries and a 23-percent increase to the G-7 countries.

No one is saying that there won’t be more problems. On occasion reforms will stall, currencies will gyrate and there will be political turmoil. Two steps forward, one step back will be the order of the day. We call the BEMs “emerging markets” because they have a long way to go. And, from the standpoint of the U.S. government, we have a great interest in helping them to make the journey. The alternative is a world of vastly slower growth and increasing political chaos in which everyone, including ourselves, will be a loser.

As always, history offers valuable lessons. We need only recall the example of the most important BEM of a century ago: a nation rich in resources and promise that lacked infrastructure, depended on foreign investment to finance its growth, experienced multiple stock market panics and saw a traumatic political assassination. Even as its great resources of gold, oil, agriculture and manufacturing capacity were becoming known to the world, it was torn apart by civil war. That big emerging market was, of course, the United States.

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Lesson #3: Balancing Big Emerging Complications

If you look at how we have conducted our relations with the BEMs in the past, you will notice that for the most part they have been considered either peripheral to our core interests or that we have been obsessed with one issue. Put another way, we sat up and noticed these countries when they became problems. Not long ago we saw Mexico as a source of oil or a source of illegal immigration—but not much more. Brazil was a problem of nuclear proliferation. India was an ally of the former USSR, in the wrong camp. China was a human rights violator. All this is changing, of course, as we achieve more balance in the assessment of our national interest with these important countries.

Our economic calculations dictate that commercial goals should rise higher on the agenda than before. But we are not a purely mercantilist nation, and the other goals, political, humanitarian, environmental—must be kept in full view.

No one would object to this formulation, but implementing a balanced policy is not easy to do, nor is it easily understood by broad segments of our citizens. The best example is China this past year. First, there was the debate over China’s “Most Favored Nation” trade status, in which President Clinton courageously broke the tight link between normalized trade status and human rights. The administration was saying that we want to expand commercial ties and pursue a vigorous human rights policy at the same time. Apart from the facts that the old link wasn’t working and access to the China market was critical to U.S. jobs, the President also felt that commercial engagement would, over time, give us some influence in China. To this day, many critics want to see the picture in black and white terms—either everything is mortgaged to human rights goals or we have no human rights policy, they say.

Earlier this year, a similar argument took place over the simultaneous events of a trade showdown over intellectual property rights with China and a U.S. trade mission to Beijing led by Energy Secretary Hazel O’Leary. Critics moaned, “How could we do both?” The rationale, however, was clear. We want to trade more with China, first, because trade benefits us, and second, because of the broader importance of commercial engagement. Ambassador Mickey Kantor and Secretary O’Leary were doing the same thing—trying to get the U.S. inside China’s lucrative market.

We should not underestimate the difficulty of these kinds of issues. When Secretary Brown visited India, he talked about the human rights issues in Kashmir. When Commerce officials were in Brazil and Argentina in February, they brought up sensitive intellectual property rights issues even as they talked about new ways to expand ties. We should remember that throughout our history we have generally been able to maintain a balanced perspective with our close allies.

For all of the Cold War there were the good guys and the bad. Two worlds, cops and robbers, cowboys and Indians. Such simplicities have no relevance today.

The basic lesson to be taken from this brave new world is that engagement with the BEMs is an important end in itself, and engagement must be on all levels: commercial, political, macroeconomic, personal. In the vocabulary of the Clinton administration, “engagement” is not an academic term, but rather represents a conscious decision to abandon single-issue policies for frequent dialogues on issues of bilateral and multilateral importance. The logic is clear: a strategy of broad engagement with the BEMs will not only open a wealth of commercial opportunities for U.S. business, but will encourage positive political and economic change in the BEMs.

Lesson #4: Learning from the Biggest BEM

China is a special case among the BEMs. Because it is the biggest and perhaps the most important, we view it as central to our BEM strategy. Many of the complications we face in our relationship with China—from questions of human rights to intellectual property rights, from nuclear nonproliferation to environmental protection—are typical of the complications we face in our relationships with the other BEMs. Like China, many of the BEMs are struggling with the growing pains of rapidly expanding economies, as tensions arise between free markets and state control, between personal freedoms and government stability, rich and poor, urban and rural. Our evolving relationship with China can teach us much about developing the increasingly important set of relationships that will drive our policies in many other BEMs.

As the BEMs reinvent themselves, they will be watching closely the way that the United States handles its conflicts with China—and they will adjust their strategies accordingly.
China will serve as a prism through which to view the evolution of American international objectives and policies in the post–Cold War world.

Moreover, China itself will be cribbing from Japan’s playbook to the extent that Japan is successful in resisting U.S. demands for market access. If we allow the second largest economy in the world to maintain a technically open but in reality closed market—if we back away from our insistence that Japan dismantle trade and investment barriers in the automotive, financial services and other industries—then what model is China likely to follow? And if the impenetrable non-tariff barriers of Japan, China and Korea go unchallenged, what market strategy will the ASEAN nations emulate?

With Asia responsible for two-thirds of our trade deficit, we must not repeat our mistakes with Japan in the 1960s when dealing with the China of the 1990s. Already we can see taking root in China the kind of “structural impediments” that have proved so intractable in Japan. These impediments have to be challenged quickly, or they will find fertile soil throughout the Asian region. Thus, a lesson of this situation is, as carefully as we consider our options with the BEMs, we must carefully watch our relations with our traditional partners and study them for their implications in the BEMs.

Lesson #5: Cooperation and Competition with Traditional Allies

Dealing with the BEMs is challenging U.S. relationships with its closest allies in Europe and Japan. If real progress is to be made in maintaining an open world economy, stable currencies, respect for human rights, containment of nuclear proliferation, protection of the environment and other important objectives, the BEMs will need to be central players, and the U.S. will need a lot of help from London, Bonn and Tokyo in providing the incentives and the disciplines. But on the other hand, it would be foolish to underestimate the pressures among the allies to compete for the biggest markets in the world at a time when everyone is recognizing that exports equal jobs and growth.

Competitive pressure is now enormous. Much of it involves ruthless, but market-oriented, competition among firms of different nationalities. But it also includes government financing subsidies, heads-of-state involvement in commercial awards, use of foreign aid and—on the part of many non-U.S. firms—illicit payments. For each of the major industrial countries, winning the big infrastructure contracts—the multi-billion-dollar awards—has become a national priority; for some, perhaps one of the highest priorities. (Why else would Chancellor Kohl or Prime Minister Major or Prime Minister Chrétien lead high-powered trade missions themselves?)

The stakes are too big to think that this intense competition will soon end. And, to the degree that this competition is among firms, acting in an open competitive arena, that’s fine. But there is a strong case for the allies to think about a framework for keeping competition in which governments themselves participate within bounds. That would mean taking a look together at all the tools that are being used and trying to develop some rules of the game in terms of financing (including foreign aid), illicit payments and other kinds of arrangements that are being used to win deals.

We also need more concerted and allied policies when it comes to pressing for protection of intellectual property rights and human rights. This, of course, is much easier said than done. Why is it that the U.S. was alone on the brink of a trade confrontation with China over rampant piracy, when a change in Chinese policies stood to benefit firms in all the industrialized nations?

There is a real danger that rifts over the BEMs could become the most divisive issues among the allies. In the first place, we don’t have the clear-cut, common security threat to hold us together as we did during the Cold War. Add to that the primacy of jobs—and the chain of connections from BEMs to exports to jobs—and you can see why the BEMs will loom so large for us, Europe and Japan. It would be a mistake, moreover, to think of this potential divisiveness as being contained in economic and commercial channels. For France, Japan and others, there is almost no distinction now between their foreign policies and their commercial aims.

All this has to be seen against the potential threat of instability in the BEMs. Unless we find ways to work with our allies to draw these countries into the center of the international system, to extend to their people the opportunity to participate in the world marketplace, to dream
of a better life, we will find ourselves in a new kind of Cold War...maybe not so cold. What will be the cost? What will be the judgment of history as to how we grasped—or failed to grasp—the end of the Cold War?

Lesson #6: Mixing Bilateral and Multilateral Efforts

As the U.S. increases its engagement with the BEMs, a judicious mix of bilateral and multilateral approaches will be required. The context of these policies is as important as the policies themselves.

1 We have direct commercial instruments, as we have discussed.

2 We want to help create an environment in which the leadership of the BEMs has strong incentives to pursue and sustain politically difficult economic reforms.

On the bilateral end, as noted, we have established several new forums (e.g., the Joint Commission on Commerce and Trade—China—and Business Development Councils—Argentina, Brazil, South Africa, India); we have established—or are working on establishing—special

U.S. commercial centers in Brazil, China and Indonesia; and we are setting up special training programs.

With regard to multilateral institutions, here we are less advanced. If the Mexican crisis did anything, however, it served as a call that said that the BEMs were not at the periphery of the world economy.

One challenge is to look again at institutions like the IMF to make sure that they are equipped as best as possible to handle the kind of volatility that stems from the central role that Wall Street now plays in international affairs. Another challenge is to ensure that international mechanisms are supportive of the expansion of an open world trading system, the only environment in which the BEMs will grow fast enough, and in which our interests and theirs will be satisfied.

In the last year, much progress has been made on this multilateral trade front. NAFTA, GATT, APEC and the Summit of the Americas all pointed in the same direction of freer trade. APEC is potentially a very useful regional framework for the Asia-Pacific area, and we will need to have a sophisticated foreign economic policy to work effectively in this new context. Following from the Summit of

the Americas in Miami, the western hemisphere is more united than ever within a regional framework.

At the base of this new emerging architecture for world trade must be a vision and a promise. The vision is one of increasing prosperity. The promise is that if countries pursue sound economic policies, particularly those requiring courageous political discussion, then they participate in the vision.

The pivotal players in all this are not so much the industrialized countries, because the trading system was originally designed for them. The fault line is the role of the BEMs, whether the multilateral system works for them and, equally important, whether they perceive it that way. It is a moving target, because even as the multilateral institutions are critical to the BEMs, they will need to change to meet the new world being shaped by the BEMs themselves.

Lesson #7: Notions of Broader Regional Markets

We talk about the BEMs mostly in terms of individual sovereign nations, and of course they are. But the world that is emerging is more complicated, especially when commercial considerations are accorded increasing importance.

When we began identifying BEMs, we put China, Taiwan and Hong Kong together in what we called the Chinese Economic Area. The reasoning was that trade among these entities was growing too fast to track, and that U.S. companies themselves would be focused on the entire Chinese growth area. We may need to move in this same direction in thinking about a 21st-century frame-
work for several other BEMs. Mexico might be seen in the NAFTA context, Indonesia as part of ASEAN (see Chart 18), Poland as linked to Hungary and the Czech Republic, and Argentina and Brazil to the new customs union called Mercosur.

The challenge for our international policies towards the BEMs is not unlike the one we have faced in Europe for a long time: dealing on two levels at once, government to government, and Washington to whomever makes decisions for the broader trading framework. In Europe we had an overwhelming reason for making this effort: we wanted a strong European Community as insurance against the rise, once again, of destructive nationalism on the continent. With the BEMs, the issues are more commercial, but not entirely. New thinking and new approaches will be increasingly important.

**Lesson #8: Not Corporate Welfare But Business Necessity**

The ultimate lesson from our BEM strategy is our obligation to be much more aggressive in our advocacy and export promotion efforts in the BEMs. This obligation arises from the sky-high commercial stakes involved: the chance for U.S. companies to play a big role in responding to the huge demand for infrastructure building in the BEMs—roads, ports, airports, phone systems, electric power generation. If we fail to be aggressive, if we lose these “markets of tomorrow” to our competitors, then we won’t get the market share we deserve, we won’t build the relationships we need, we won’t create the jobs our children expect, and we won’t be able to ensure the market openness on which we will depend.

Advocacy and export promotion, of course, don’t come free. But consider the returns: these services, as offered by the ITA, cost taxpayers just over $236 million a year. But in the last year, ITA-coordinated advocacy has played a key role in almost $50 billion in deals signed, with nearly $20 billion in U.S. export content. That is a profit margin any investor would be delighted with.

Occasionally you hear this administration’s advocacy efforts criticized as “corporate welfare” or “industrial policy.” That is a gross misreading. All we are trying to do is ensure simple justice for U.S. firms as they compete for overseas business. We need to play by the rules of foreign markets if we are to succeed in those markets. In an ideal world, advocacy would not be necessary. But until global playing fields are truly level, and bidding processes are truly open and transparent, we cannot afford to keep our hands folded. We cannot, as some have suggested, unilaterally disarm in this competitive struggle and expect to be unhurt. We will lose exports, we will lose jobs, our standard of living will be hurt and we will feel the pain for a long, long time.

**Conclusion**

All too often, as a consequence of the heavy, time-intensive demands to respond to current concerns and crises, there is a temptation among policymakers to downplay or overlook both history and the long-term consequences of our actions. It is a struggle to do otherwise. But all of our best leaders have risen to the challenge, and we must do so as well.

Perhaps this avoidance of considering the sweep of the past is natural in a country with only 200 years of history. To consider the history of remote civilizations from which we had broken or with which we had little contact would have been—at different times in our past—almost un-American. Besides, it didn’t seem important to the average American in the first 200 years of our existence. Israel, Greece, Rome, China, India and Africa were all oceans away, as distant as myth. Though we were born of the Age of Enlightenment, and though we sparked an era of democratic revolutions across Europe, triggered the collapse of mercantilism and imperial systems and were transformed by the Industrial Revolution even as we were its best example—these are all truths that were more relevant in academic circles than they were to American workers, politicians or public opinion makers.

In this century, we find ourselves drawn inexorably into the world, integrated into its history. Wars did this, as did satellites and 747s. So today, while it is possible to argue that the first 200 years of American history developed in many ways apart from that of the rest of the world, virtually no one can dispute that henceforward our histories shall be written.
together—America’s, Europe’s, Japan’s, and the history of the giants of tomorrow, the countries we call the BEMs.

This is a straightforward but powerful concept. We must grasp it if we are to have any control at all over our own destiny. We must realize that our future—and that of our children—will be shaped by events, actions and actors in places our forefathers would have considered as otherworldly as the moon.

The post–Cold War era has posed many challenges for every government in the world. For the Clinton administration, at the helm of the world’s richest and most powerful country, these challenges have been recognized and viewed with great care and considerable thought. Our ability to rise to them will be the ultimate measure of our success.

Of all the defining aspects of this new era, the rise of the BEMs stands as one of the most important. In facing it, we have been presented with new issues, new questions and bountiful new opportunities.

By viewing these new conditions in the light of history and by learning from our preliminary experiences, we have gone a long way toward developing the kind of new economic world view that will guide us in our policymaking for the foreseeable future. What was opaque at the outset is now becoming clearer. Surely, we have not discovered all the answers. But we understand the stakes.

Indeed, we face a stark choice. Either we rise to the challenge of these markets of tomorrow, answer the call of our businesses and workers to ensure that government is there by their side to do what is needed to succeed—or we step back, unilaterally disarm and leave the markets of the 21st century to those who understand the stakes better than we do.

It is nothing less than a choice between continuing American economic leadership and prosperity or accepting our decline and a future as a second-class economic power.

It is a choice. And clearly, it is no choice at all.

Garten wishes to acknowledge the late Secretary Brown’s leadership of the Big Emerging Markets program, the enormous amount of work by Deputy Under Secretary David Rothkopf, now a managing director at Kissinger Associates, and the entire International Trade Administration staff, which contributed to these speeches and to the conception and implementation of this new vision for America’s international role.