

April 24, 2005

James Flanigan:

Globalization Is Doing a World of Good for U.S.

The news from the global economy is bullish: Major U.S. corporations are reporting sharply higher earnings thanks to surging profits from overseas.

Take General Electric Co., where rising profit from foreign operations pushed overall earnings up 25% in the first quarter. And last week Caterpillar Inc. in construction equipment, Intel Corp. in computer chips and EBay Inc. with an enormous rise in international auction trading all reported sharply higher earnings thanks to global growth.

Indeed, a quarter of all U.S. corporate profits, or about \$225 billion, were earned outside the United States last year, according to the federal Bureau of Economic Analysis.

That figure seems sure to rise in coming years because developing economies, from Eastern Europe to China, are growing at about 8% a year, compared with 3% to 4% for the U.S. and scarcely any growth at all for Western Europe and Japan.

Businesspeople look at such growth in formerly poor countries and see opportunity and long-term promise.

"We are witnessing a revolution in the movement of capital," says economist John Rutledge, an advisor to President Reagan and the current Bush administration.

Many Americans, however, look at the same emerging economies and see only a threat to U.S. jobs. Whether it's computer programming being performed in India or manufacturing of such diverse products as cars and clothing in China, the popular images of the global economy are creating anxiety at home.

This is driving political moves in Congress and alarmist outcries on television and in a rash of new books that picture U.S. workers as a vanishing species.

But the alarms get globalization all wrong.

We've been here before. In the 1960s, the anxiety was over computers idling millions of workers. In the 1980s, the rise of Japanese industry was supposed to turn Americans into hamburger flippers.

The nightmare visions didn't come true then, and they certainly won't come true today.

Computers unleashed a huge new information industry, creating many thousands of jobs. And the competition from Japan pushed America into new frontiers such as technology and healthcare, where the U.S. now dominates.

Likewise, globalization is creating wealth for American companies and new jobs at home as well as overseas.

GE is a prime example of the way the world is turning.

"Globalization is an asset for us," is how GE Chairman Jeffrey Immelt puts it. He sees the developing economies of Eastern Europe, Russia, the Middle East, India and China as GE's aces in the hole.

Why? Because those countries are moving from village to city and farm to highway and therefore need GE's turbines for electric power plants, locomotives, jet airplane engines and water treatment and desalination plants.

More to the point, the GE example also demonstrates that growth abroad can lead to benefits at home. The company employs 129,000 people in the U.S., a number relatively unchanged in the last five years, and 98,000 outside the U.S., up 6% since 2000.

The non-U.S. employment seems sure to grow because foreign operations are now 49% of GE's \$152 billion in annual revenue, up from 31% only three years ago. But work changes with technological advances, and the average job at domestic GE now pays double what it did 10 years ago, the company says. (In comparison, average weekly wages have risen only 30% over the same period, according to the Bureau of Labor Statistics.)

The truth is that modern work is increasingly shared across borders. GE, for example, makes jet engines in Evendale, Ohio, for new regional jets in China, with some parts made in China. Servicing of GE airplane engines is performed in Prestwick, Scotland. And lease financing on airplanes is done by its U.S.-based GE Capital Aviation Services.

The company employs advanced materials and technology to make gas turbines in Greenville, S.C., for electrical plants around the world, with some parts made in other countries. "The intellectual capital components are made here," a spokesman says.

Even intellectual capital development is becoming a cross-border operation.

GE in recent years has opened technology research centers in Bangalore, India; Munich, Germany; and Shanghai. That means some discoveries will be coming from abroad because the U.S. certainly has no monopoly on brains. GE today has 1,800 researchers in Bangalore.

The company also has invested \$100 million to rebuild the venerable research lab at Niskayuna, N.Y., where GE's early geniuses Thomas Edison and Charles Steinmetz worked in the 19th century.

Whether the work is done in Bangalore or Niskayuna, if it makes profit for a U.S. company it benefits Americans. As companies make more profits overseas, those earnings form the basis of higher stock prices in markets. And that expands the wealth of Americans through their pension or mutual fund or individual investment accounts.

And not to be overlooked is the fact that growing profits finance expansion and new ventures everywhere for U.S. companies. GE has used its profit in recent years to expand into biotech, where it is teaming with Eli Lilly & Co. for research on Alzheimer's disease, and water desalination, where it is

embarking on a major contact in Qatar. It has also acquired Universal Studios, combined it with NBC and is expanding both.

To be sure, the domestic jobs picture is clouded. U.S. employment growth in this economic recovery has been weaker than in previous economic cycles. And wages are not growing. A study by the Economic Policy Institute, a liberal Washington think tank, finds that productivity and profits have risen far faster than wages in the current business cycle, a reversal of the historic pattern.

Inevitably, some U.S. workers will be displaced. Management consulting firm McKinsey & Co. advocates special government and private industry insurance to finance retraining for employees.

Yes, a lot of work in the future will be done outside the U.S.— but a lot of work will be created in this country as well.

As the largest economy and the creator of most of the world's capital, the U.S. need not fear globalization. Instead, the American economy stands to benefit mightily from rising living standards for billions of formerly poor people.

*

James Flanigan can be reached at jim.flanigan@latimes.com.

<http://www.latimes.com/business/la-fi-flan24apr24,1,756491.column?coll=la-utilities-business&ctrack=2&cset=true>