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ECONOMIC VIEWPOINT

By [Jeffrey E. Garten](#)

# The Wrong Time for Companies to Beat a Global Retreat

**The terrorist attacks and the recession have CEOs reassessing overseas strategies. Corporate America will be hurt if they get too cautious**

A slowdown of American corporate expansion abroad may be one result of the terrorist attacks. To be sure, cutbacks in foreign direct investment already had begun in previous months as the global recession took hold. But following September 11, it may have accelerated into a retreat from globalization itself.

Since the summer, for example, Gateway Computer Inc. ([GTW](#)) announced it was shedding most of its foreign operations in Europe and Asia. AT&T ([T](#)) dissolved its joint venture with British Telecommunications ([BTY](#)). Merrill Lynch & Co. ([MER](#)) began pulling back from Asia. Ford Motor Co. ([F](#)) said it would be shrinking its operations in Europe. There has also been a major slowdown in the expansion of U.S. telecom and energy companies in South America.

**INCREASED RISK.** Admittedly, U.S. companies have their reasons for caution. Many are, after all, reeling from the collapse of the Internet bubble, an economic downturn at home and abroad, and intense pressure on quarterly earnings. But perhaps more important, September 11 changed the mindset of many global CEOs. Globalization used to mean openness, but now there is anticipation of more government involvement. Globalization used to mean new opportunity, but now there's a sense of growing vulnerability. Some CEOs see increased security risks abroad to their supply chains, their factories, and their employees. Some fear that their companies could be targets of anti-American fanatics.

Ralph Shrader, CEO of consulting firm Booz Allen & Hamilton, recently

told me he doesn't know of any companies that aren't carefully reassessing their global strategies in light of the recession and September 11. Sir Martin Sorrell, CEO of WPP Group, the advertising, marketing, and research firm, recently described many American CEOs as "deer caught in the headlights," their global strategies paralyzed. The trend is apparently global and extends beyond U.S. corporations: Cross-border mergers are down 50% since this time last year, and flows of direct foreign investment around the world are projected to drop this year by 40% from 2000.

There are also two noticeable exceptions to the slowdown in globalization. One is the NAFTA region, where Citigroup's ([C](#)) recent acquisition of Banamax, one of Mexico's largest banks, could be a precedent for many more linkups, as could Calpine Corp.'s ([CPN](#)) move into Canada. And China, now a member of the World Trade Organization, has become too compelling a destination for investors to miss. Investment that would have gone into many Asian countries is now flowing into just one--China. Look at AOL Time Warner's ([AOL](#)) just-concluded joint venture with China's largest computer company, the Legend Group, and Wal-Mart Stores' ([WMT](#)) announcement that it would build five new stores in Beijing alone.

But the brighter picture for NAFTA and China does not erase the dangers of a globally hesitant Corporate America. A quarter of U.S. trade is conducted between American companies in the U.S. and their overseas subsidiaries. As foreign investment abroad slows, therefore, so will American exports, which accounted for 20% to 30% of gross domestic product growth in the 1990s and supported millions of high-paying jobs. And so will imports that have helped to hold down prices and provide more choices to consumers. In addition, given the importance of U.S. foreign investment as a provider of money, management, and technology, the economic prospects of several regions of the world will be undercut by a slowdown of American investment, adding additional drag to the global market. Because we are so interdependent, the slowdown will hurt us too.

**NEW COMPETITORS?** U.S. corporations themselves will forfeit their ability to build a wider customer base. They could be opening the doors to new long-term competitors, too. During the 1980s' debt crisis in Latin America, for example, companies like Bank of America ([BAC](#)) and AT&T pulled in their horns. It took 10 to 15 years for U.S. companies in the developing world to recover lost ground from their European counterparts. Because of problems in the U.S. market, Ford and General Motors Corp.

(GM) pulled back overseas in the 1970s and '80s; Japan filled the vacuum, and continues to do so. Companies in emerging-market nations themselves could now become rivals, too. "The biggest competitive threat on the horizon," former General Electric Chairman Jack Welch told me recently, "are those companies whose names we can't spell or pronounce."

It would be seriously counterproductive if Corporate America were turning inward just as Washington is building the base for widespread multilateral cooperation, including a push for new global trade liberalization. We all know that the war against terrorism must be waged not only by our military troops but also by an economic development effort that gives poorer nations the chance to become something other than breeding grounds for frustration and violence. That can't happen with foreign aid alone. If U.S. corporate investment doesn't play a major role, it may never happen.

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