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ECONOMIC VIEWPOINT

Anger Abroad Is Bad For Business

What should Corporate America make of rising anti-American sentiment around the world? My guess is most CEOs don't spend much time thinking about it, and those who do probably underestimate the growing risks. To be sure, the intense passions that have been unleashed against the U.S. are not controllable by companies alone. But neither are CEOs without options.

As the world's most powerful nation, the U.S. is a lightning rod for all kinds of grievances, both legitimate and bogus. But the anger being directed at America is exploding. In early October, a Bush Administration task force on America's image abroad reported that "hostility toward America has reached shocking levels." The Council on Foreign Relations recently warned that "negative opinions of the U.S. and its policies have metastasized."

After the U.S. invasion of Iraq, I interviewed executives of U.S. companies in Germany, France, South Korea, and Mexico. All believed that American businesses would be unaffected by foreign opposition to the war. My sense is that business leaders are even more optimistic today. After all, terrorism hasn't disrupted oil supplies. The global economy is strengthening.

Moreover, many CEOs believe that anti-Americanism is directed at Washington's foreign policies, not U.S. companies. They are confident that Corporate America's products, knowhow, and capital are in high global demand. And most execs would say their companies have ingratiated themselves abroad by hiring local managers and funding local causes.

THESE ARGUMENTS HOLD WATER -- for now. But the upheaval in the Middle East, not to mention the wave of anger among Muslim populations from France to Indonesia, may have just begun. Anti-Americanism could be further inflamed by growing disillusionment about Washington's strident push for U.S.-style free-market policies. U.S. credibility already has been undermined abroad by its move to protect its steel and agricultural sectors as well as by corporate and financial scandals, from Enron Corp. to the New York Stock Exchange.

Keith Reinhard, chairman of DBB Worldwide, a global advertising and marketing firm, says U.S. companies are already in trouble. Pointing to polls by RoperASW and surveys done by his own company in 17 countries, he told me that the value of American brands is being eroded by growing anti-Americanism. U.S. corporations are increasingly seen as arrogant and insensitive to local cultures, he says, attitudes that will harden as local opposition to U.S. foreign policy grows. "American CEOs are not listening to the warnings," he said.

Martin Sorrell, CEO of WPP Group, the global communications services giant, told me that U.S. companies "cannot isolate themselves from the political trends," such as growing religious fervor in Muslim countries and rising nationalism in East Asia. He cautions Corporate America against assuming people in these regions want unadulterated American lifestyles. "Globalized markets are fragmenting," he said, "and the pendulum is swinging toward local needs and preferences."

The danger is that a slowdown in globalization and the new anti-Americanism fuel each other. The stakes are high. U.S. companies have assets of \$2.5 trillion abroad. Some 30% of the profits earned by companies on the Standard & Poor's 500-stock index derive from foreign operations. The risks to U.S. companies abroad include consumer boycotts, loss of procurement contracts, adverse regulatory rulings, and difficulty in hiring top local talent. In addition, U.S. commercial facilities could become targets of violence. Growing distrust could also poison trade negotiations.

Of course, business can't transform opposition to American foreign policy. But Reinhard of DBB Worldwide wants companies to begin a collective "USA Inc." effort to offset damage to Corporate America's image. WPP's Sorrell contends that multinationals must expend more effort tailoring their products to local markets.

American CEOs should also press Washington to change trade policies that reinforce America's image of arrogance and hypocrisy. Less boasting about the marvels of our brand of capitalism would help, too. Earlier this year, Francis Fukuyama of Johns Hopkins University wrote that opposition to U.S. policies could become the chief passion in global politics. Given that real possibility, U.S. chief executives would be naive to think their companies will remain unaffected. Wishful thinking isn't a policy.

By Jeffrey E. Garten