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INSTITUTE OF CURRENT WORLD AFFAIRS

JEF-28

Tomorrow's World: Concluding
Thoughts for the Rich and Powerful

November 30, 1976

Mr. Richard H. Nolte
Institute of Current World Affairs
535 Fifth Avenue
New York, New York

Dear Mr. Nolte:

In my last letter I spent some time examining misperceptions by the US government of the world we are heading into, generalizing from my decade of experience in Southeast Asia and especially from my last 3-1/2 years of the ICWA fellowship. My goal has been to ease in some small way our transition into this new world by overcoming erroneous or unrealistic expectations about what US power can achieve or perpetuate.

In this my final newsletter I hope to conclude my work by pointing out some analogous problems for the international business community. This is important because foreign businessmen are a major reference group for Third World leaders, a fact impressed upon me with special vigor by the recent military coup in Thailand. To the extent that government leaders, lacking expertise or interest, play to the desires of foreign businessmen, and these foreign businessmen also lack insight into the shape of the future, we have a dangerous situation of the blind leading the blind in rather swampy terrain.

Thus we may be able to bring about a more humane and less violent world by enhancing the insight and the realism of the expectations of such influential actors—and in this regard I think the international business community may have an even more constructive role to play than the US government. My experience in Southeast Asia suggests that American investors often have a longer perspective than their government counterparts and pay better attention to minding the assets in their custody. While Thailand fell victim to a "use the country and throw it away" attitude in the US government, businessmen have had to take a longer view if only from enlightened self-interest. Thus, ironically it was the US government which opposed liberalizing trends in Thailand, while the forces behind democratization, greater distributive justice, and rationalization of the economy were bankers and businessmen, not just students and intellectuals. This level of insight was not universal among the business community, however, and that is why I am writing the following.

The Changing World for International Business

Large multinational corporations now employ sophisticated techniques such as critical path analysis, decision trees, computerised cash control, and the like. Using these methods of corporate planning, management and control as well as more traditional methods, they have in general been able to achieve higher rates of return on invested capital abroad than on analogous business activities in their countries of domicile. To continue past successes and avoid future difficulties,

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however, major international firms are going to have to apply a comparable sophistication to their analysis of the new political environment which is developing for their activities overseas.

All corporations operating outside their home countries of course have internal reporting systems to collect data and analyse it, doing in fact much the same thing as ambassadors, attaches, and intelligence operatives—in fact talking to individuals such as these as part of their regular routine. Yet at present such internal reporting is generally descriptive, and analysis does not exploit to the degree possible recent scientific advances in what we know about the evolution of Third World countries—and the world business environment.

The reason is simple enough: corporate environment reporting, to the extent it is done, is usually the additional duty of managers, accountants, economists, or administrators, not the responsibility of a trained professional.

Again, the reason is not surprising: our knowledge of this field has grown dramatically in the last few years, and there is not yet a cadre of available specialized manpower: a corporate decision-maker cannot hire at will an expert in corporate environment studies, as he easily can a trade economist or a market analyst. Yet in the emerging new environment, business leaders will have to peer more deeply into the politico-economic matrix of business activities, advancing beyond such simplistic formulas as "a government that understands business" to a sophisticated comprehension of the tradeoffs between equally desirable but often competing goals in the domestic business environment which the foreign investor would like to see. And businessmen will increasingly have to evaluate the capability of government leaders to understand and manage the tensions arising from these conflicts, by learning as much about the way the countries work as do government leaders, and perhaps more. Given the often irregular ways that leaders are chosen in Third World countries, such leaders often do not understand very well how their own countries work—or sometimes they understand, but their interests lie elsewhere. Indeed, to be fair about it, we have no shortage of examples of leaders of advanced states following suicidal policies.

The International System: What's Changing for Business and Why

Businesses and financial institutions now collect a plethora of economic data about Third World countries, often of great methodological sophistication, but usually oblivious of the larger matrix in which such data are embedded. Struggles for economic resources (the businessman's chosen arena) are just one of the struggles in societies. There are also conflicts over power, and status, and these are all related. In many developing countries a stable and independent legal and administrative system does not yet exist (or may exist formally but not in reality), so economic data in such countries do not have such objectiveness and reliability as predictive devices as they do in advanced societies. Hence one must understand the axes of political conflict, since the waves from these conflicts frequently and powerfully sweep over the economic sphere.

These struggles are important to the businessman because they take place on two fronts: domestically, between groups within the countries; and against foreign investors, governments, aid agencies, and the like. At the same time, opponents in the domestic struggle—be they political parties, bureaucracies, families, or military factions—seek to use their access to foreign resources to consolidate their domestic position. The result, as strategists call it, is a "mixed game" with both common and competing interests in this multi-angular match. And since,

as we will see, the match is heating up, old levels of information and analysis will no longer produce the same results.

For one thing, there are major changes taking place in the structure of international relations which in the coming years will decisively affect the environment for transnational actors, be they multinational corporations, aid agencies, or government themselves. We know that this is so since the most sensitive "leading indicator" has moved dramatically in the last five years, namely the legitimacy of the structure itself among those at the bottom. Deeper trends always reveal themselves first in this way—the vigorous verbal dissent of those who are disadvantaged—and though the first signs are in words, books, or placards, changes in action inevitably follow. Thus we may be sure that in the years ahead these deeper structural changes will bring a major shift in power against the advanced free-enterprise countries and, of course, their free-enterprise economic outposts.

Indeed the evidence is quite striking that the last century and a half has been unique in history, and the world of the future will be a much tougher place to live for those at the top of the heap. The reason is that in the previous 150 years, the now advanced countries were the first to use a series of new technologies for production, for military uses, and for the organisation of their own societies, administrations, and peoples. In this way they expanded their influence to the whole world, but in the less developed countries the result was an enclaved modern economic sector linked comfortably to the foreign advanced economies, producing a so-called "dualistic economy." This was paralleled by a dualistic political structure with national leaders—generals, princes, potentates and compradores—also in a comfortable political relationship with advanced states. Its stability depended on the political quiescence of the population in the backward sector, in turn dependent on continued illiteracy and isolation.

In such an environment those enterprises and individuals with access to education, modern technology and cheap capital could make high profits and have an easy life. This is clear from the higher rate of return on invested capital in less developed countries than in metropolitan economies, or even from the living standards of expatriate executives compared to their counterparts at home.

All this is now changing, and will change even more. With the world-wide development effort and consequent improvements in literacy and communications, the population in the backward sectors of the economy is increasingly taking part in political and economic life; and national leaders are being forced to slip out of their earlier comfortable linkages abroad. The result has been a marked attack on the status of entities of all kinds operating outside their home territories.

In economic terms, this is apparent from such documents as the UN Charter of Economic Rights and Duties of States, the UN Declaration of the Program of Action on the Establishment of the New International Economic Order, and the OECD Guidelines for Multinational Corporations. In the political sphere it has been most dramatically illustrated by the change in veto patterns in the UN Security Council: from an earlier record of never using its veto power, the US now has a string of vetoes to its credit. Even personally wealthy leaders presiding over highly and probably increasingly inegalitarian societies, like the Philippines, have had to champion this international movement, contrary to the behaviour of their predecessors in office, and perhaps their own personal preferences as well.

Hence the direction is clear. The economic winds of the past few years are not a transitory tempest but the shape of things to come. The questions now are: What will happen? How far will it go? How should one respond to produce durable soci-

eties, not ones that will tear apart from increasing stresses?

One implication is that transnational actors of all types, but especially multinational corporations, are going to have to devote more management time and attention to following trends and developing secure linkages within the foreign societies where they have activities. It was formerly possible for a company to buy a general, or an intelligence agency to buy an entire government, and expect that things would be managed satisfactorily on their behalf from the bargain. Recent disclosures reveal that this is becoming less and less possible, and more and more dangerous. Earlier comfortable and informal linkages among leaders at the tops of organizations—government, unions, corporations—will give way to a much broader range of explicit and carefully crafted linkages, and that is going to take more management time. In cases where careful analysis reveals such protective linkages cannot be fabricated, the risks of crippling policy changes will be correspondingly higher, and must be incorporated into planning.

And that is not all.

Sociologists know that increasing wealth reduces social controls and increases political mobilization. With the decline in controls by national leaders the predictability of political change decreases, since more and more people are taking part. This is true both within countries, and in the world as a whole — the sudden rise in oil prices has swept away the former pliability of Middle Eastern states with barely calculable effects on the whole world economic and financial structure. Hence, to draw the implicit lesson, our earlier optimistic belief that a more developed world of increasingly prosperous peoples would be a quieter and more peaceful place to live, travel, and do business is not going to be vindicated. On the contrary it is going to be noisier, with claims and counterclaims more strident than at present.

Furthermore, we must overlay this unanticipated development on yet another, namely the newly projected lower world growth rates due to the now increased cost of energy. There is thus going to be a smaller growth dividend with which to quiet the claims of the disadvantaged, at the same time those claims are going to become all the more vociferous and less capable of being intimidated. This is going to lead to increasing tension, increasing frustration and, by a simple sociological principle, increasing violence.

There is another peculiar impact of world politics on world economics, which dictates that the period ahead is almost certainly going to be more inflationary than that since the end of World War II. Inflation is a way social groups push the burden of change onto someone else—via the monetary mechanism. In a situation of increasingly equal power there is no stable solution to this problem, due to something called the Arrow paradox, which says that for any distributive problem, a given solution can always be defeated in pairwise voting by another plan, resulting in "cyclical majorities".

In the past this problem was "solved" by traditional value systems which stabilized preferences and social hierarchy, averting endless conflict (and endless inflation). Many groups did not calculate what was to their advantage, or could not organize to enforce it, taking instead what was left to them by others. We can see this in the long-term rising trend in inflation rates in the United States and the United Kingdom: workers and investors, middle class and blue collar, repetitively and unsuccessfully seeking to shift the burden of change onto the other. This pattern will be replicated on the world scene as well, as everyone

organizes to make sure *someone else* pays. The OPEC pricing strategy, to adjust for the costs of inflation from the industrialized countries, is the opening salvo. In the world we are entering, no one will be content to pay, so all will, by the erosion of currencies everywhere.

One "solution" to these problems, which is not pleasant to behold, is increasingly authoritarian governments using conscious policies of repression in lieu of the earlier subconscious restraints imposed by unthinkingly accepted values. But repression produces its own dilemmas.

The Complex Political Matrix

Conflict within Third World countries is destined to increase, breaking up previously comfortable economic and political relationships of outsiders, just as world conflict is going to increase, affecting the coherence of formerly solid blocs and alliances, and eroding the stability of currencies. But this will not take place everywhere at the same time or at the same rate. Hence just to stay in the same place, the successful enterprise will henceforth need to develop increasingly sophisticated assessments of the international, regional and domestic corporate environments. This must be done not just by more management attention, but also by *better* attention, bringing to bear recently developed tools of analysis in this field. Business leaders must advance beyond simplistic formulas like "a government that understands business", to a realization of the tradeoffs that genuinely complicate the search for equally desirable but conflicting business goals: security, labour, peace, price stability, coherence of government decision-making, continuity of government succession and policies.

Businessmen must also come to realize that government leaders themselves frequently do not have a sufficient factual or analytical basis to be assured of the consequences of the policies they propose and execute. While they may know their own countries well (but sometimes in fact see it through very distorted lenses), they probably will not have the breadth of cross-national experience to realize what has been tried before, and didn't work elsewhere, or how apparent gains in one sphere are compromised by losses in another.

In a typical example, investors want decisiveness in their dealings with governments; perhaps not even a completely favourable decision, but at least a decision. A government which promises to "knock heads together" in order to give quick and definitive answers, say for foreign investment proposals, will be preferred to a less decisive government, other things being equal. Yet the coercion which must be applied within such a government to secure this degree of authoritativeness vis-a-vis outsiders may sap its legitimacy vis-a-vis competing domestic groups with the increased probability of reversal later. In the long run, then, there is a genuine tradeoff.

Or, to take another example, there are compromises which must be made between short-run and long-run stability. Foreign investors are daunted by popular demonstrations, vociferous student, farmer and labour movements, or the open expression of socialistic viewpoints in the press. Third World governments seeking to attract foreign investment may be tempted to suppress such signs of "instability", but in doing so they damage their access to the feedback essential for steering a society toward greater coherence and rationalization of its economic, political, and commercial infrastructures.

Some Hints for Analysis

To these conflicting demands, and many others, there are no universally applicable answers, hence the need for increasing business sophistication in assessing them. But there are some universal questions, among which the following must have a prominent place.

1. What are the motives of government leaders? Though (sometimes) formally sanctioned or selected by elections, leaders in Third World countries generally have some intimate and direct linkages to families, military factions, or economic enterprises. These linkages often have a more direct effect on their policy preferences than the "national interest". They are seldom discussed, but they can be found out, and once found out help in predicting behaviour. For example, though martial law in the Philippines was formally proclaimed to preserve the country against a security threat, its actual motivations, and more importantly its consequences, cannot be understood apart from the family connections, and conflicts, of President Marcos and his wife, a subject seldom if ever covered in the financial press.

Similarly, though the recent Thai military coup was justified (and is widely accepted) as a step to protect the country from a communist takeover, in reality it was the outcome of an intense struggle for power among *conservatives*. The biggest losers were not the left (who never were a threat anyway) but a particular coalition of conservative businessmen, bankers and politicians whose *economic* policies had severely damaged the financial and career prospects of certain military officers.

2. How great is the sophistication of government leaders? There is a broad variability here, but it is true that somehow (in part due to irregular methods of succession) individuals of inferior comprehension or very distorted vision achieve high office. Again to take one important regional example, the evidence indicates that senior officials of the Thieu Government in Vietnam simply did not know what to do to reduce the level of domestic conflict in their country, which was urgently necessary after 1972 in view of declining US aid levels. Those foreign investors and financial institutions who relied on their discretion, and the discretion of their American advisors, were ill served.

3. Do the objective conditions exist to support a government's strategy to perpetuate stability? Such strategies may range from highly repressive (as in Indonesia and the Philippines) to moderately so (as in Malaysia) to those heavily weighted toward positive strategies for evoking public compliance (for example Thailand from 1973 to 1976, with its major shift in funding emphasis from urban to rural areas, and industry to agriculture).

Indonesian and Philippine models of a hard line against labour, political parties and students, combined with aggressive military operations, have a broad appeal among the military in developing countries. But inspection of the map suggests that highly repressive strategies may be viable in countries surrounded by water, while they may not be so in, say, a country surrounded by hostile communist powers and jungle no-man's-lands. Similarly Lee Kwan Yew's authoritarian system is frequently held up as a model, but his island republic has numerous unique advantages, geography and ethnic composition being two of the most prominent, which

make the model dangerous to attempt under other circumstances.

4. In order to assess the viability of government policies at any moment, it is necessary to ask whether they are reinforcing, or working against, structural trends in society. As I suggested in JEF-27, the disasters of American foreign policy in Asia in the last decade have come from resisting ineluctable trends.

Or again, despite the enthusiasms of foreign investors for Philippine martial law, Marcos' New Society has severely damaged the dependability of the legal system, not only in political matters, but in straight commercial terms. Thus there have been confiscations and transfers of corporate property, for which there is no legal recourse, even though the confiscations and transfers have no cover of law. Though these measures have so far only been used against Marcos' personal enemies, they might be extended to foreigners under certain circumstances.

5. What does the next government look like? This is a vital question when the struggle for power is intense and the outcome uncertain. Indonesia thus is frequently represented abroad by military and civilians associated with the Center for Strategic and International Studies in Jakarta, and they appear to speak for "the government". Yet the reality is that they speak for one powerful policy current associated with generals of particular religious orientations, and the Chinese business community. They are opposed by another powerful policy current, associated with a different ethnic group and a different religious orientation, which would have very different attitudes toward foreign investment, sectoral balance and foreign alliances. Indeed, the Indonesian military heavily subsidizes the CSIS just to make sure that its voice is the reassuring one heard abroad. Yet these crucial but seldom investigated linkages are seldom reported in the financial press, nor are their implications explored.

Conclusion

During the past few years I have been impressed by how much more senior levels of powerful institutions (governments, corporations) could know about the future simply by exploiting the information now available, and recent scientific advances in our understanding of societies. In the case of governments this shortfall is due partly to distortions in information processing, while on the contrary for large corporations it is largely due to the inadequacy of resources devoted to analysis and forecasting functions.

To some extent the "futurist" movement is forcing a general upgrading in our attention to this area, but we could be doing much better even now using only the analytic tools and data in hand.

However that may be, it is certain that past levels of insight and analysis will no longer be adequate for the future. *Nor will past expectations.* Pushing hard for things which can no longer be will produce loss in lives (as in Vietnam), in financial resources (as the Lockheed disclosures reveal), and in moral values as well.

Who will prosper in the world we are entering? *Power*, physical or military, used to be the decisive variable in deciding the distribution of the world's values. But as I have tried to point out earlier, the very means of achieving and preserving

power are shifting at the present time. Beyond this, access to and control over new technologies are becoming ever more crucial determinants of the income streams, in a situation where crude power can no longer be used with earlier impunity.

But finally, "who will prosper" will depend on how one's level of insight and adaptability compares with one's competitors—and this applies equally to individuals, corporations or nations. While we may not always like the shape of things to come, the prudent will adapt, and even anticipate, rather than resist the inevitable. Some things are inevitable, while others are merely possible; that is where insight comes in.

Sincerely,

A handwritten signature in cursive script that reads "Jeffrey Race". The signature is written in dark ink and is positioned above the printed name.

Jeffrey Race

Received in New York on January 18, 1977