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ADDICTED TO GROWTH: PHASED RESPONSES TO THE CHANGING DYNAMICS IN WORLD TRADE

Growth has become the elixir of government and corporate leaders. To satisfy their addiction to it, leaders have responded in a variety of ways, which we have grouped into five consecutive phases, creating a sort of development scale. We have called these five phases: the new industrial revolution phase; the domestic stimulation phase; the trade zone/protection phase; the market share battle phase; and the new market phase.

Economic realities and these various responses to them have created a different trade dynamic, one that could prove problematic to Asian economies and quite beneficial to Latin America. Any leader wishing to launch an enterprise in another country would do well to locate that country's position on this developmental scale and create a strategy that fits the appropriate phase. Each phase offers different opportunities and different risks.

The Elixir of Growth

Growth has seemingly become the must-have elixir of trade and business policy. With growth, the world seems to say, all problems disappear, sick economies become healthy, restive citizens become happy, and a feeling of contentment sweeps through the collective social mind. Nothing cures economic illness, stills discontent, pads bottom lines and ensures election, leaders seem to believe, like a strong dose of growth.

To that end, everyone is looking for growth. Japan launched a massive stimulation program, European countries tried lowering their interest rates, Singapore launched a huge construction project, China opened its doors wider to foreign investment, the United States lowered the dollar's value, and nearly everyone, it seems, protected some industry, business or service against "unfair" competition. All of this they did in the name of growth. For business and political leaders alike, growth has become an addictive elixir, intoxicating and captivating, but ultimately a problem in its own right.

Trade & Economic Growth

While the world's leaders share an interest in growth, they do not have the same economies. Some are farther down the road to industrial and post-industrial development than others. As a result,

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different world leaders face different circumstances, and, not surprisingly, they have responded to them in different ways, as the list of growth-inducing actions listed above suggests.

What we have noticed with these growth-inducing actions is that they have followed a pattern, depending upon where the country lies along the economic development scale. We have pieced together the following five phases for developing economies. Each phase contains a period of growth (the positive response to the actions taken) followed by a squeeze (where the actions lose effectiveness). The squeeze prompts leaders to locate another set of responses, and that leads to the next phase.

In order, the phases we have identified are: the new industrial revolution phase; the domestic stimulation phase; the trade-zone/protection phase; the market-share battle phase; and the new market phase. We hasten to add that this is not a grand theory on trade economics, but rather an assemblage of examples. Consequently, individual countries could diverge from this pattern, even while most follow it through to the end. Still, a closer look at each phase should help locate specific countries along this scale and also outline the new trade dynamic and what countries or regions are best suited to take advantage of it.

New Industrial Revolution Phase – In the early 1980s, we noted that a "new industrial revolution" in which low cost providers – whether labor or goods – were forcing changes in established manufacturing/ distribution relationships around the world was taking place. No matter what one produced, someone else could produce it faster, cheaper and even better. For leading manufacturers, the "revolution" spelled trouble, but for new low-cost providers, it meant growth (see "The New Industrial Revolution," **IF 616**, 6/7/85 and ensuing *Briefings*).

Currently, China is enjoying a boom that depends upon its low-cost, massive labor force. Because of that cost efficient work force, huge amounts of capital have flowed into the country to build new manufacturing facilities, which have, in turn, increased Chinese exports. As a result, trade deficits with China are becoming common among the world's economic powerhouses. For example, July reports indicated that the U.S. trade deficit with China had risen 15 percent over the prior year to an all-time monthly high of $3.82 billion. With the direction of that deficit headed straight up and with China hoping to sustain its own growth, Beijing announced that its foreign trade minister, Wu Yi, would lead a 30-person delegation to the United States for discussions with trade officials. (*International Herald Tribune*, 9/19/96 and 9/21/96)

After investing in China and helping raise the Chinese standard of living, foreign investors anticipate selling goods and services to the huge Chinese domestic market. Beijing's planned economy has made that difficult, but beyond the political barriers, foreign companies are confronting surprisingly competitive domestic suppliers, essentially acting as China's own low-cost providers. Consider this high-tech example.

✦ Despite plans among multinational computer makers to sell their products to China, local-brand PCs (*i.e.*, products pieced together in "screwdriver" factories off the back streets of cities nationwide) accounted for more than 44 percent of the 1.5 million PCs sold in China last year. (*Asian Wall Street Journal*, 9/2/96)

One of the features of the new industrial revolution phase is that rising salaries and rising education levels among the working population lead to an expanding economy, which puts pressure on the leaders to keep it growing. Citizens who were once satisfied with domestic goods now wish to buy imported goods, pressuring the trade balance just when exports start to stagnate.

This rising wealth eventually leads to the "squeeze" portion of the phase, something South Korea, after years of economic growth driven by its status as a low-cost provider and as a carefully protected domestic market, is now experiencing. That country's current account deficit jumped to $13.3 billion for the first eight months of this year, far in excess of the Seoul's planned $7 billion for the entire year and indicative of the fact that a true consumer market (discount stores and all) has taken root.

Since April, the South Korean currency (the *won*) has declined 5.3 percent in value, and the stock market has declined 22 percent. Shares of Samsung Electronics dropped 3,600 won (from roughly $50 per share to $12) because of increased chip competition and a profit decline of 60 percent in the first half of this year. Shipbuilding orders plummeted 39 percent as the labor force became more expensive. Kia Motors Corporation, which sold 713,000 cars worldwide last year, suddenly faced factory shutdowns as workers demanded higher wages, organized unions and went on strike.

Overall, the South Korean economy "slowed" to 9 percent growth last year, and Seoul anticipated another decline to 7.5 percent this year. However, officials have already lowered that figure to 6.5 percent and have publicly admitted that even the lower number may be too optimistic. These types of numbers prompted the country's business elite (the *chaebol*) to warn workers publicly that a freeze on all wages and significant job cuts were in the future. (*Wall Street Journal,* 9/4/96; *International Herald Tribune*, 9/7/96 and 9/25/96; *Journal of Commerce*, 8/11/96; *Economist*, 9/14/96)

The squeeze that follows the growth of the new industrial revolution has forced leaders to act forcefully to keep the growth going. When they turn to traditional economic tools for domestic economic stimulation, they move into the:

Domestic Stimulation Phase – Within any domestic economy, leaders use certain tactics to reinvigorate growth at home. Right now, the "four tigers" of the 1980s – Hong Kong, Taiwan, South Korea and Singapore – are deploying these growth-triggering tactics. To sustain their economies' miraculous growth of the past two decades, those four countries have invested more than $90 billion in Chinese facilities to take advantage of low-cost manufacturing there, which, in turn, they hope will revive their own competitiveness. (*International Herald Tribune*, 9/21/96)

The growth crisis in South Korea has forced government and business leaders to act decisively. Their actions typify the growth-inducing actions of the domestic stimulation phase:

✦ South Korean Finance Minister Han Seung Soo proposed cutting utility bills by 10 percent, freezing most public sector salaries and making foreign investment easier. (*International Herald Tribune*, 9/4/96)

✦ On July 30 of this year, Kia Motors Corporation announced plans to spend $1 billion over five years to develop manufacturing facilities in Kaliningrad, Russia. Also in July, LG Group revealed it had purchased land in Wales to build a $2.6 billion industrial complex. (*Russia Review*, 8/26/96; *Far Eastern Economic Review*, 8/8/96)

✦ Daewoo Electronics Company announced plans to build plants in Mexico and Brazil. Hyundai Motor Company is investing $1.1 billion in a Madras, India, plant and will also construct plants in Brazil and Peru. Samsung Group introduced a top-of-the-line television for sale around the world, and then explained that it would build the manufacturing facility in Mexico. (*International Herald Tribune*, 9/6/96; *Forbes*, 9/23/96; *Asheville (NC) Citizen Times*, 5/26/96)

✦ Daewoo Motors Company sold 26 percent of its equity to a Malaysian investment company in an effort to raise capital for facility expansion elsewhere in the world. Daewoo also said it would place between 200 and 500 automobile outlets in the U.S., most near college campuses. (*International Herald Tribune*, 9/7/97; *New York Times*, 8/8/96)

✦ Miky Lee and her brother Cheil Jedang, owners of South Korea's second largest food company, made jaws drop in Seoul when they invested $300 million in DreamWorks, a Hollywood (U.S.) studio. Several other South Korean investors have now joined the moviemaking business. The profit from "Jurassic Park," one South Korean investor explained, is equal to exporting 60,000 Hyundai automobiles. (*San Jose Mercury News*, 8/25/96)

✦ Samsung Company reached agreement with the South Korean government to start manufacturing automobiles. Samsung Motors, as the enterprise will be known, must export 33 percent of its product in 1998 and up that to 50 percent by 2002, and 80 percent of the car must be domestically produced. (*Nikkei Weekly*, 8/26/96)

Overall, South Korean companies spent $2.5 billion overseas in the first five months of this year, a 61.2 percent increase over last year, and the top five industrial giants announced plans to spend a total of

$70 billion abroad over the next 10 years. While business leaders turned their attention abroad, political leaders looked to stimulate the domestic economy by saving citizens money on government expenses and reducing their tax obligations.

South Korean leaders are utilizing the tools available to them: economic stimulation, capital investments, exploiting low-cost providers elsewhere, exploiting new market possibilities, and entering new product fields.

These tactics create growth, but as markets and competition become more global, the pure impact of domestic stimulation lessens. For example, Japan has lowered its prime interest rate to 0.5 percent, and that rate has done little to stimulate the economy's return. Likewise, in the most recent U.S. economic recovery, housing sales went down in almost direct proportion to the decline in interest rates, a counter-historical event. When these types of stimulation tactics have lost sufficient power to reverse economic decline, leaders, addicted as they are to growth, have turned to another set of responses, prompting what we have called the:

Trade Zone/Protection Phase – Individual leaders have responded to the squeeze that has followed the dwindling impact of domestic stimulation tactics by protecting their own markets against new low-cost providers and against imports that could decrease their own economic vitality. Along with this protection, however, they have figured a way to secure some export markets to keep their economies dynamic. To maintain the balance between domestic protection and export demands, countries have linked their economies to others with similar problems in the region. We first noticed this strategy in 1990, and outlined the geographical parameters to that new strategy (see "The Neo-Monroe Doctrine," **IF 1104**, 2/15/90).

At one time, these connections were informal, but in the modern era, countries have created regional trade areas (RTAs). Roughly 61 percent of the world's trade takes place within RTAs, and every member of the World Trade Organization, which ostensibly supports free trade worldwide, is also a member of some preferential RTA. In essence, the European Union, ASEAN, Mercosur, NAFTA and others have tried to sustain trade growth while tolerating protectionism within bounds (see "The World Trade Organization's Failing Aim?" **IF 1716**, 6/12/96).

At present, ASEAN has become the most vigorous in its pursuit of the combination of protection and trade, principally because several of its members – Indonesia, Malaysia and Thailand – find themselves emerging from the new industrial revolution phase having lost most of the leverage that their once low wages offered. In addition, their domestic stimulation packages are not yielding the results they wanted.

That lost yield has a political price. In Thailand, corruption at the top had drawn little attention as long as the economy boomed, and economic growth spread the wealth. However, recent export growth there tumbled from 24 percent to 3 percent. Overall growth dropped from 8.6 percent to 7 percent and could well continue downward. As a result, the Thai currency (the *bhat*) may need a devaluation before year's end. These economically negative signals surfaced at the same time as news of political corruption, and the twin events forced the prime minister to resign just before a parliamentary "no confidence" vote would have sent him packing anyway. (*New York Times*, 9/29/96)

With negative numbers surfacing in several countries, the need to spark growth has encouraged talk of trade-zone protection. ASEAN countries hope to sustain their once incredible growth rates by extending regional trade agreements to include potential members Vietnam, Cambodia, Laos and even Myanmar (Burma), all of which offer new emerging economies to develop and labor markets to exploit (see "The Asia-Pacific Region: Spreading the 'Japanese Model,'" **IF 1612**, 4/28/95).

Under current accords, ASEAN members agree to lower all intermember tariffs to a range of 0 to 5 percent by 2003. Additional deals in line with that overall free trade environment have started to emerge.

✦ Automakers from six ASEAN members – Malaysia, Indonesia, the Philippines, Thailand, Singapore and Vietnam – have created the Automotive Federation, which will facilitate the mutual supply of parts among members and establish joint environmental and safety regulations. (*Nikkei Weekly*, 9/26/96)

Like ASEAN, countries in Latin America continue to pursue regional trade consolidation, even while the U.S. struggles domestically with the reality of NAFTA and labors to decide whether to move ahead with a Western Hemisphere trade alliance. (The U.S. Congress rejected Chile's request for fast-track status into NAFTA, prompting Chile to turn to regional partners in Mercosur.)

While the U.S. balks, Mercosur (Argentina, Brazil, Paraguay, Uruguay) and the Andean Pact countries (Bolivia, Colombia, Ecuador, Peru and Venezuela) are joining to create one large trade bloc. The Pan-American trade officials who will discuss the merger and other hemispheric trade issues chose Brazil to host the forthcoming meeting, sending a subtle signal to Washington that the power within the bloc was shifting to the Southern Hemisphere. Specifically, Brazil has made aggressive moves in the region to assume the region's leadership mantle and press ahead to regional trade accords. More interestingly, Brazil has initiated talks with the U.S., arguing that Washington needs to open America's market for Brazilian goods. Also, Mercosur has completed special trade discussions with Mexico. As one observer noted, "Latin America isn't waiting for the United States." (*Journal of Commerce*, 9/4/96 and 9/22/96; *Christian Science Monitor*, 9/16/96)

This sort of aggressiveness indicates the pressure that leaders feel when the stimulation phase squeeze hits. As Europe learned through "Europe 1992," however, RTAs do not yield all the benefits sought and can actually retard growth for some economies. This reality has enlivened U.S., Mexican and Canadian domestic discussions about NAFTA. The U.S. Helms-Burton bill, which challenges foreign companies on the use of "confiscated" U.S. property in Cuba, has precipitated violent reactions not only from distant trade partners but even from America's two NAFTA partners, suggesting that a regional trade accord does not end serious trade conflicts. Similar conflicts have surfaced in Britain, Norway and France over the European Union. (*Manchester Guardian Weekly*, 9/22/96; *Financial Times*, 9/21/96)

When the logic for controlled markets runs its course, then companies within uncontrolled markets find themselves thrust into the:

Market-Share Battle Phase – Starting in 1992, the U.S. launched withering attacks on Japan, Europe and China, all in an effort to win greater market access for domestic companies. Those countries were protecting their own markets (rather successfully), and the U.S. was hoping to increase exports numbers (to stimulate growth) by prying open seemingly closed doors. To a large degree, this badgering technique in the larger market-share battle worked for the U.S., bringing needed export growth just when domestic consumer spending was not carrying its normal economic weight.

Singapore, while benefiting from the trade zone/protectionist moves in the near term, has already announced an extraordinary effort to create market dominance in the already troubled global chip market. Despite steadily declining prices and the threat of wild overproduction ahead, Singapore announced plans to construct 25 chip manufacturing plants, at a cost of more than $30 billion. Leaders have expressed interest in sustaining a seven percent annual growth rate and in attracting higher value-added jobs, signals of an economy reaching the deep squeeze of this phase. With dwindling margins and rising competition, Singapore is forcing a market-share battle, which with its internal support and even protection, leaders figures they can win. (*Business Week*, 9/16/96)

While governments in this phase have taken actions against other governments, private companies have acted as well. They have cut costs, reduced product lines and generally increased efficiency. For example, even though the last U.S. recession ended five years ago, American companies are still reducing their labor forces and trimming below-the-line expenses, because competition in the post–new industrial revolution era makes extreme production efficiency necessary. The U.S. screamed at Japan, Europe and China partly because those protected markets were trying to avoid competing in the open market that was squeezing U.S. companies. Essentially, the different economies were clashing because they were at different stages along the growth-squeeze scale.

Another tactic in the market-share battle involves further saturating already existing markets. In this regard, Japan and Germany, by building automobile factories within the U.S. and selling the manufactured cars in the U.S., are not only lowering their import-export problems but are also gaining efficiencies within the market (lowering transportation costs and even exploiting wage differentials). Similarly, insurance companies using electronic conveyance to have back-office processing completed in Ireland for the home office in the U.S. also add efficiencies.

Companies are acting in other ways as well.

✦ Proctor & Gamble, Nabisco, General Mills, Kellogg, Toyota, Showtime, Citibank, Sunoco and other companies have all announced cutbacks in their product lines and simplifications in their production routines. (*Business Week*, 9/9/96)

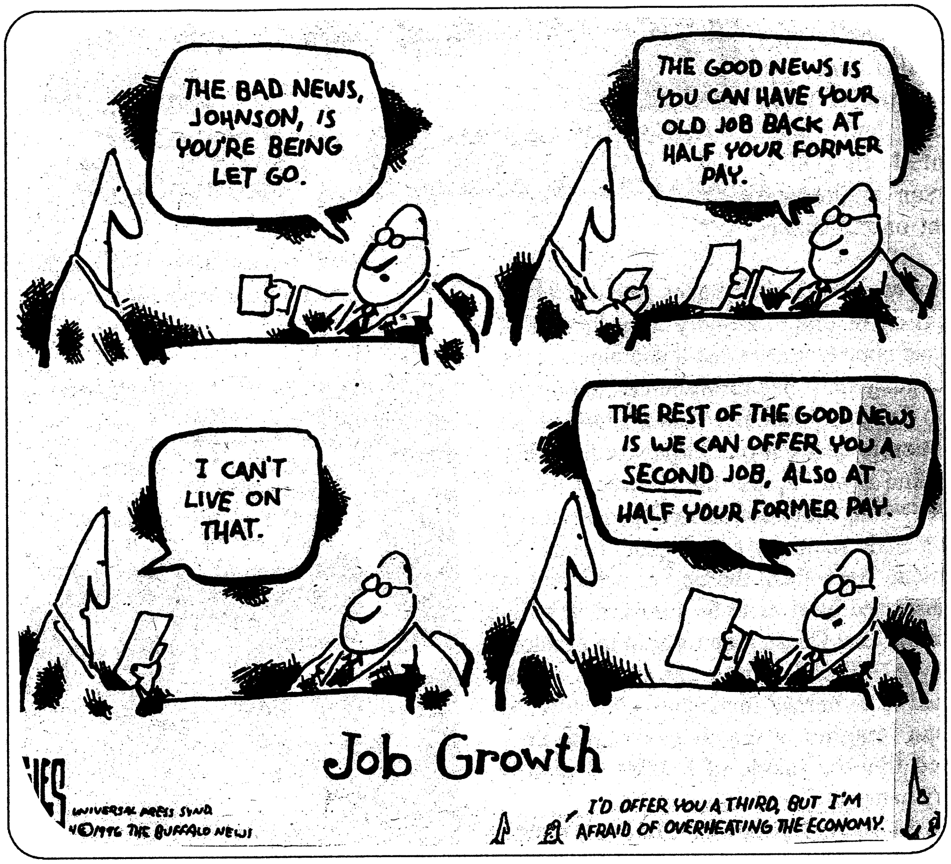
In a world where brand leverage meant more shelf space, which usually meant larger sales figures, extending the lines and adding personnel facilitated growth. However, with the new industrial revolution a baseline reality, with economic stimulation packages (for corporations, read "coupons") not working and with protected markets losing their effectiveness, products and more products (branded or not) do not automatically mean more sales. Therefore, trimming products can actually increase profit in a true market-share battle, as Proctor & Gamble quickly discovered. When the company decreased its hair-care product lines by half, it actually increased market-share by five percent, a counterintuitive event in traditional marketing practices.

While market-share battles may encourage some companies to build factories in the market they are seeking to develop, those same market-share battles may also encourage another company to bring facilities back home. The new industrial revolution squeeze favors the "hollowing out" that South Korea is experiencing, but in the market-share battle, tactical restructuring (cost-cutting efficiencies) eventually creates some positive changes back home. As currency and wage scales change, domestic production can once again become profitable.

✦ Aiwa, the Japanese electronics company that was among that country's first to move plants abroad to lower production costs, announced it would be returning manufacturing facilities to Japan from Malaysia and other Asian countries. (*New York Times*, 8/6/96)

✦ In 1995, U.S. exports of steel jumped to $7 billion, double the 1994 figure and the highest level in 55 years. (*Christian Science Monitor*, 9/20/96)

This positive news for domestic economies comes mixed with some fairly strong negative news. In the market-share battle phase, price squeezes, margin pinches and dwindling profits become more and more routine. Eventually, the market-share battle loses its positive impact as the reality of equalizing salaries worldwide dampens growth in the most advanced economies.



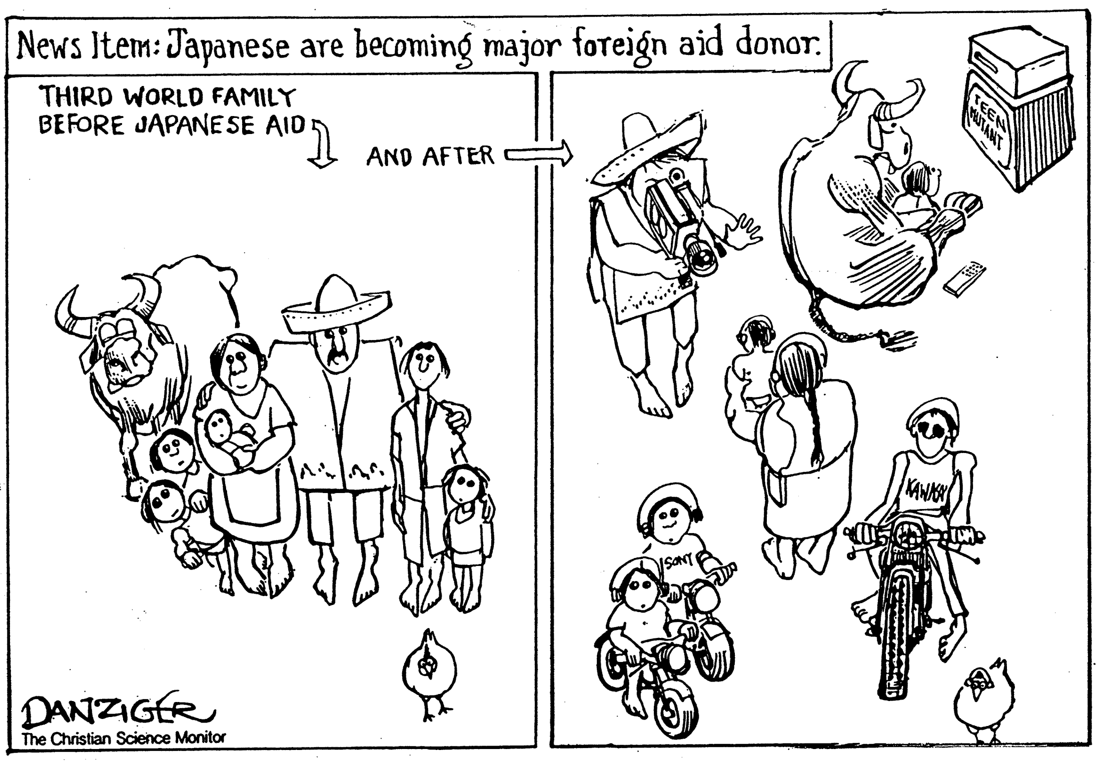
The play for market share has other risks, as Japanese banks are starting to learn. Between 1994 and the end of 1995, Japanese banks increased their lending to the rest of Asia from $40 billion to $130 billion in an effort to increase significantly Japan's share of the financial market in the region. Japanese banking also increased its physical presence, with Fuji Bank, for example, increasing its branch presence from six to eleven in those same two years.

The growth that these moves spurred has already started to lose momentum. When the banks started their lending splurge, loans carried margins between 150 and 200 basis points. Now, those same loans carry between 5- and 15-basis-point margins. As the region's growth shrinks further, the Japanese bank play for regional market share could prove more and more costly. (*Economist*, 9/14/96)

While the market-share battle encourages efficiency or tactical restructuring to maintain competitiveness (as U.S. companies have learned) and while its encourages an aggressiveness that can stimulate some growth (as Japanese banks have learned), it nonetheless eventually loses its ability to spur economies. With these types of squeeze realities facing them, leaders eventually move beyond established markets (whether protected or saturated) and look to the:

New Market Phase – Exporting goods to a newfound market offers growth without an apparent downside, and that approach has attracted U.S. attention, with the U.S. share of exports to developing nations at a 30-year high. (*Christian Science Monitor*, 9/20/96)

However, that growth may depend upon developing economic infrastructures within the targeted market to create sufficient wealth to stimulate desire for foreign imports. This combination of development and demand launches a less developed economy into the sequence described in this *Briefing*, and it also offers another round of growth for the developed country that focuses attention on the developing economy.



China has benefited from this quest among the most advanced countries. U.S., European and Pacific Rim countries have moved to place manufacturing facilities in China not only to exploit the low-cost labor field but also to gain access to 1.3 billion people who might be interested in buying hair-care products, computers and whatever else foreign companies can send or produce there.

The new market phase started developing after the collapse of first the Berlin Wall and then the Soviet Union, as developed countries started sending political, economic and financial aid to Eastern European and former Soviet republics in order to develop new markets for already existing products. Earlier this year, we noted that Africa has economic development in its future, as more and more countries and multinationals start looking to that continent for low-cost production and a market for base-level goods and services (see "Africa: A Promising Investment Opportunity?" **IF 1714**, 5/21/96).

Latin America, however, seems to be the most attractive region for new market development. This region not only offers some labor advantages, it has economies eager for even the most sophisticated products. No matter at what stage along the sequence of phases a country or company sits, Latin America seems to offer growth potential for anyone hoping to enliven sliding economic fortunes.

✦ As noted earlier, South Korean companies like Samsung, Daewoo and Hyundai are investing heavily in Latin America, and economic ministers in Honduras, El Salvador and Guatemala have asked their counterpart in South Korea to encourage additional investments in their region. (*International Herald Tribune*, 9/6/96)

✦ Diplomacy has become a quick way to demonstrate economic interest. So far this year, South Korean president Kim Young Sam has traveled to the region (Brazil), as have Japan's prime minister Ryutaro Hashimoto (several Latin American capitals) and German chancellor Helmut Kohl (Mexico and Brazil). Kohl's visit followed an earlier visit this year by Germany's foreign minister, Klaus Kinkel, who sought to forge an EU-Mexico free trade link. (*Journal of Commerce*, 9/11/96 and 9/16/96)

✦ Spain has decided that it has a "natural market" in Latin America. Banco Bilbao Vizcaya announced a $2 billion investment in the region; Telefonica revealed plans to invest $474 million in Brazil; and Banco Santander just formed Chile's biggest banking group with $7.9 billion in assets. Spain's Endesa power company spends fully 60 percent of its foreign investment in Latin America. (*European*, 9/5/96)

Advanced economies are looking to Latin America for growth just when their own economies have lost momentum. "Latin America," explained Nigel Rendell of James Capel (London), "provides high potential returns nowadays for European companies compared with their home markets." Evidently, other European companies agree.

✦ Volkswagen revealed plans to spend $1 billion in Mexico to build a factory for the "New Beetle." The company admitted it originally planned to spend $600 million on the facility but recently decided to expand that investment. (*Financial Times*, 9/9/96)

These announcements join other announcements of initiatives from Japan, Southeast Asia, the United States and Europe. Adding leverage to this growth is private investment capital, which is flowing into "emerging markets" at a rate 16 times larger than official monies ($224.8 billion versus $14.1 billion from governments, the IMF and the World Bank). As Latin America accelerates its growth, these private investors could turn their money toward the Southern Hemisphere even faster than they already are.

✦ Despite the recent peso crisis, private investment money returned to Mexico to the tune of $33.8 billion in stocks and bonds. (*Christian Science Monitor*, 9/20/96)

This seemingly widespread geographic shift of investment focus to Latin America could create an accelerated growth phase in that region.

A curious feature of the Latin American situation is that the region can actually acquire growth leverage because economies from different growth phases are seeking to use Latin America to stimulate growth, and they are doing so at the same time. Latin American countries are enjoying huge inflows of foreign investment; some are lowering interest rates to stimulate economies; and most are expanding their regional trade agreements. This growth-push combination, which is unique right now, could make growth in Latin America accelerate faster than growth phases have heretofore allowed other regions.

What Happens When the Elixir Runs Out?

Rapidly expanding communications systems, more efficient and faster transportation systems and accelerating corporate agglomeration are all propelling the world's economies through the sequence of growth-squeeze phases. When the most advanced economies explore and then develop their new markets, the time will come when they need another mechanism to further their growth. While economic leaders have shown creativity in finding another source for their growth "fix," development of the final undeveloped frontier could cause economic problems.

At that point, leading economies may have to resign themselves to slower or even stagnant growth, something the U.S. economy experienced during the first four years of the recent recovery. Or domestic pressure to locate and market new products and services could increase. Or the most advanced economies could develop a new definition of growth, something that could accept slower growth in return for expanded opportunities, greater equality or some other favorably perceived social or business attribute. Should another growth strategy that suits the most advanced economies not be found, protection could become the most attractive option.

A Few Implications

In "The World Trade Organization's Failing Aim?" (**IF 1716**, 6/12/96), we outlined the developing tensions among three levels of economic activity: global free trade (WTO); regional trade areas (RTAs); and domestic changes (both political and economic). As this *Briefing* suggests, those tensions are increasing, and their root cause relates to the emerging leaders' addiction to growth. In search of this elixir that insures domestic tranquillity and increased wealth, leaders are responding with phased responses as their own economies dictate.

At a global level, some significant growth shifts are taking place. The Asian countries that have maintained huge growth numbers in the past are losing their edge as their growth phase hits its squeeze period. At the same time, Latin America could soon surpass Asia as *the* developing region of choice. This shift in trade priorities and potential has huge implications for shipping, manufacturing, investment and financial institutions, as the shift forces a reallocation of resources and abilities in a different direction.

These changing phases of growth and squeeze have created a trade dynamic that is slightly more complex than the one we first outlined in 1990 (see "The Neo-Monroe Doctrine," **IF 1104**, 2/15/90). The regional trade alliances, while at one time attracting action around the globe, have become temporary stimulation tactics in a response phase following the boosts afforded by the new industrial revolution and domestic stimulation phases. While the regionalization of trade has adherents (*e.g.*, ASEAN, Mercosur), most countries are dispersed across a spectrum of responses that encourage interaction within and across regional spheres.

As countries have progressed through the phases outlined in this *Briefing*, they have assumed varying paces, and that variance has created tensions within regions, even as it has created opportunities elsewhere. For example, Singapore has participated in ASEAN regional trade agreements and at the same time has launched a go-for-broke effort to corner the world's chip market. Those responses are appropriate to different phases of growth and could create economic friction with ASEAN partners or with domestic chip producers. Likewise, Germany has aggressively pushed European unity and has tried to hold European leaders to the seemingly impossible 1999 single currency deadline. At the same time, German leaders are seeking new markets in Latin America and the Pacific Rim. Germany could be counting on a huge deutschemark swing from the EU common currency plan, thereby making its products more internationally competitive. The German moves could also signal Bonn's shift toward a more global, new market strategy that could lead to tensions with European trade alliance partners.

Brazil serves as an example of another kind of growth problem. Brazil has been simultaneously aggressive in expanding Mercosur regional trade agreements, assertive in fighting the U.S. to open its markets to Brazilian products and bothered by growing consumer demand for cheaper (unregulated) airfares at home. The tensions and contradictions within this array of activities suggest the political and business liabilities of the addiction to growth.

Overall, this ebb and flow economic view adds impetus to Latin American growth possibilities. While China will continue to attract those seeking to exploit low-cost production – in anticipation of exploiting a huge new market – the easier access and better basic economies of Latin America should attract sizable stimulative growth.

When dealing with a particular national economy, leaders would do well to understand which phase that country is in and what lies ahead. For example, with so many companies moving into Latin America, its growth phase could accelerate, making it attractive. But no one should enter Latin America without an intraregional approach because the region seems focused on the regional trade/protection phase. Entering that market without being linked in some way to another institution that could insure staying power despite protectionist thought could be risky.

Another implication of this sequence of growth-squeeze phases is that once inside a country, a company must also be ready to evolve with that economy as it moves through its various stages of growth and squeeze. Looking again at the Latin American example, that region, if this pattern holds, could eventually move into market-share and new-market cycles. At that point, companies would need to use their facilities as launching pads for distribution elsewhere.

An intraregional strategy (*e.g.*, inside of Latin American right now) and an interregional strategy (*e.g.*, Latin America in the market-share and new-market phases) are not the same thing. The way in which an individual company wends its way through these differences may determine its long-term success.

At present, the evolution of the world's economies continues, and the sequence of growth-squeeze phases continues to unfold before them. The possibility that the needed elixir might at some time dwindle has not attracted the attention of those addicted to growth. In the interim, those wishing to play in the global arena will need to recognize the reality of the addiction and exploit the pattern that has emerged so far.