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Building On A Foundation

NEW EXECUTIVE DIRECTOR KENNEDY PLANS TO
REFOCUS RESEARCH, ADD NEW INITIATIVES AND AUDIENCES

Robert E. Kennedy, an expert on business strategy and industrial dynamics in emerging economies, became the third executive director of the William Davidson Institute (WDI) on May 1.

Kennedy, who joined the Michigan Business School in September as a professor of business administration and as the associate director of WDI, succeeded Jan Svejnar, who returned to teaching full time.

Kennedy came to the institute from Harvard Business School, where he was associate professor of business administration. He has worked in more than a dozen countries as a management consultant and venture capitalist.

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For a retrospective on Jan Svejnar's tenure at WDI, turn to Page 2.

Leaving a Legacy

Svejnar Brought Research Vision, International Credibility to WDI

Jan Svejnar served as executive director of the Davidson Institute from 1996–2004. His experience in institution-building and research, and his credibility in international economic and policy circles were invaluable in creating a unique international research and policy institute.

As executive director, Svejnar founded a working-paper series that ranks among the most downloaded in the world, created a network of 170 research fellows, and obtained funding for the Davidson Data Center and Network, the only existing archive of data on transition and emerging market economies.

Svejnar also sponsored multiple seminars on international topics with other units of the university, and organized several research and policy conferences every year, creating a global reputation for the University of Michigan while also providing international experiences for its faculty and students through research opportunities and global MBA projects.

During his eight years as executive director, Svejnar also extended the public policy activities of the institute. Madeleine Albright joined WDI as its first distinguished scholar in 2001, and the institute established a Washington, D.C. office.

Albright visited Ann Arbor regularly, hosted policy conferences on Capitol Hill and has helped raise the institute's profile among government leaders. Simultaneously, the institute launched a policy brief series on topics including Iraqi economic reconstruction, WTO negotiations and the expansion of the European Union.

During Svejnar's tenure, the institute expanded its technical assistance activities and was awarded funding to establish American-style business schools in emerging markets, including the Czech Republic, Uzbekistan and Ukraine. It reorganized and expanded its executive education programs, partnering with local institutions to deliver programs in-country, and created a human resource network with 20 corporate partners operating in emerging market economies.

Robert Dolan, president of the institute and dean of the Michigan Business School, lauded Svejnar for his leadership. "Jan came to WDI in 1996 and turned it into a first-class research institute," Dolan said. "He created a solid foundation upon which to build."

Svejnar, also the Everett E. Berg Professor at the Business School and professor in the Economics department,



Jan Svejnar discusses off-shoring at the Globalization of Service Activities conference in April.

was an architect of the Czech Republic's economic reforms in the early 1990s and was a key advisor to then-President Vaclav Havel.

Before coming to Michigan, he was Distinguished Service Professor of Economics at the University of Pittsburgh. During that time, he co-founded the CERGE-EI in Prague, a graduate program that trains economists from the former Soviet-bloc countries and is the only American-style Ph.D. program and research center in economics in Central and Eastern Europe.

He will return to teaching full time at the Michigan Business School. ■



A packed Hale Auditorium

Albright Talks Terrorism, Peace During March Visit to Ann Arbor

Former U.S. Secretary of State and WDI Distinguished Scholar Madeleine Albright visited Ann Arbor for three days in March.

Albright packed a lot of activities into her short visit, granting interviews to the *Detroit Free Press* editorial board, WJR-AM radio and Michigan Television, and giving two speeches. She also participated in a forum on terrorism, attended a Michigan Business School dinner and had a book signing at a Detroit-area bookstore.

On her first day on campus, Albright spoke to students, faculty and invited guests about prospects for democracy in the Middle East. Achieving democracy is something she wholeheartedly endorses. But she said two illusions must be avoided: linking it to terrorism, and to the Israeli-Palestinian conflict.

The first illusion, she said, is that “because transformation is billed as the

solution to terrorism, supporting it makes other counterterrorism efforts less necessary.”

That is not the case, Albright said. There is some logic to defining terrorism in broad terms, however, the Arab and Muslim world did not attack the U.S. on September 11—Al-Qaeda did. Therefore, the U.S. does not have to wait for the Middle East to become democratized before defeating Al-Qaeda, she said.

Albright said the second illusion to avoid when discussing Middle East democracy is thinking that it is a substitute for leadership in pursuing Israeli-Palestinian peace.

“President Bush has argued that the way to make progress in the Middle East is to create a model democracy in Iraq,” Albright said. “This, he says, will inspire the Palestinians to elect new leaders who will then crack

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Despite talking about serious issues such as terrorism and Middle East peace, Albright injected a little levity into her speeches.

She delighted the Hale Auditorium crowd by saying because this was her fourth visit to Ann Arbor, she was feeling more and more like a Midwesterner. She did, however, still have trouble being called a “distinguished” scholar. She said during her school days, “distinguished” meant “old.” She said she didn’t see any reason why a scholar couldn’t be “frisky” or “buff.”

She also recalled going out on the book show circuit and being excited early on about a large crowd that had gathered at one event. She was hoping the mood would be just right for her talk, but soon realized that the author preceding her had penned a manual on potty training.

She said that after listening to the author, she concluded that there were “many similarities between managing world affairs and negotiating with two-year-olds.”

“The major difference being the magnitude of the consequences when the inevitable mistakes happen,” Albright said as the audience laughed. ■

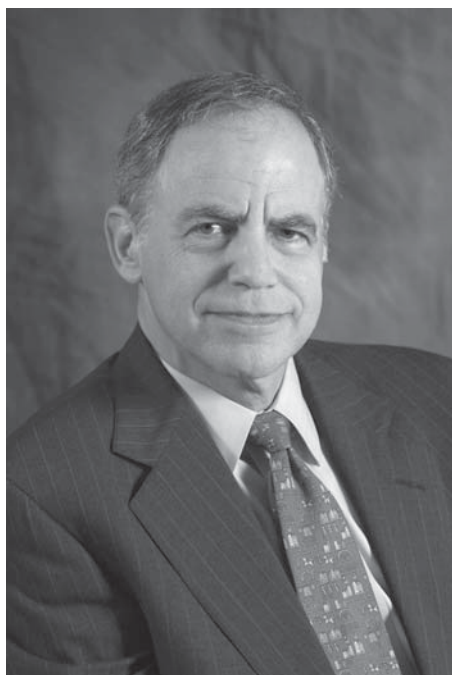


Albright and Michigan Business School Dean Robert Dolan share a laugh.

WDI In Brief

The William Davidson Institute hosted an off-the-record conference on May 3-4 to address the volatile Taiwan Strait situation. This issue is perhaps the most dangerous challenge confronting American policy in East Asia in the coming four years, conference attendees said.

The conference brought together seven participants from China with six counterparts from the United States. It was chaired by WDI Distinguished Fellow Kenneth Lieberthal.



Kenneth Lieberthal

The Chinese participants included civilian and military representatives, former government officials and scholars. Five of the six American participants are former government officials, both civilian and military.

As Taiwan has democratized, it has developed an increasing sense of separate identity. The re-election of Chen Shui-bian as president in March 2004 on a ticket promising to pursue and consolidate Taiwan's posture "as an independent, sovereign country" has increased the danger of military conflict, Lieberthal said.

China claims Taiwan as an integral part of its territory and has threatened to use military means if necessary to prevent Taiwan's independence. The U.S. has a longstanding position of insisting that any resolution to the cross-Strait issue be accomplished peacefully, and Washington has made clear it does not want Taiwan to pursue policies that will raise tensions.

But recent developments appear to have led Chen Shui-bian to the conclusions that Beijing's military threats are hollow and that Washington will support Taiwan no matter what President Chen does. Both of these conclusions are likely ill-founded, Lieberthal said.

This off-the-record conference produced a frank and wide ranging discussion of mutual perceptions, key challenges, and possible strategies to enhance cross-Strait stability and reduce the chances of military conflict. The conference did not seek to develop a joint statement but rather produce advice by each side to both governments.



WDI, the University of Michigan Law School's Center for International and Comparative Law, and the John M. Olin Center for Law & Economics hosted a conference in April on how best to promote development in an era of globalization.

Discussion at the April 16-18 conference centered on three critical components of the "Millennium Development Goals" set out by the United Nations to reduce global poverty by 2020. Those were:

- For development assistance, what is the appropriate mix of public investments and what is the best way to advance them?
- For trade, how can developing countries gain access to industrial country markets? Should poorer countries be given more time to comply with trade rules, and should one set of common rules apply for all countries?
- For institutional reform, should development assistance be used to help build effective and corruption-free government?

Keynote speakers were Robert Kuttner, co-founder and co-editor of *The American Prospect*, and Daniel Kaufmann, director for global governance at the World Bank Institute.

The conference was chaired by outgoing WDI Executive Director Jan Svejnar, Law School Professor Reuven Avi-Yonah, and assistant Law School Professor Michael Barr.



At the end of May, WDI – along with the Centre for Economic Policy Research (CEPR), the Vietnamese Academy of Social Sciences (VASS), and the United Nations Development Program (UNDP) – organized two conferences in Hanoi, Vietnam.

The first, the WDI/CEPR Annual International Conference on Transition Economics, ran May 27-29. It provided a forum for leading economists and other social scientists working on transition and on broader issues of development and institutional change to meet, present new research, develop collaborative relationships, and complete ongoing research.

On May 31, the UNDP/WDI/CEPR Transition Economies Policy Conference kicked off.

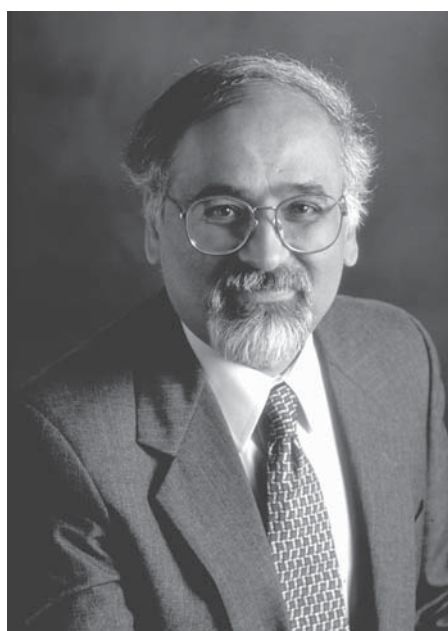
The main purpose of the policy conference was to take stock of and exchange experiences on some of the most important lessons learned in transition economies over the past 15 years, and to discern the most important policy and institutional implications for countries still in transition.

The conference also compared and contrasted the differing experiences of the Commonwealth of Independent States and Eastern Europe with those of transition economies in East and Southeast Asia.



In December 2003, WDI Distinguished Scholar Madeleine Albright chaired a roundtable discussion on the United States' image abroad.

Rajeev Batra, WDI faculty expert and director of the Michigan Business School's Yaffe Center for Persuasive Communication, and Bruce Stokes, National Journal columnist and Pew Global Attitudes Project founding member, were the featured presenters.



Rajeev Batra

The roundtable brought together a diverse group of diplomats, government officials and academics, including: Judith Siegel, deputy assistant secretary, Bureau of International Information Programs; and Iris Burnett, president, Academy for Effective Public Diplomacy.

Topics discussed included research on world attitudes toward the U.S., government efforts at public diplomacy, challenges the U.S. faces in communicating its foreign policy, and communicating with skeptical audiences.

“America’s image overseas faces many challenges,” Albright said in her opening remarks. “Differences in cultures, opposition to American policies, resentment over its superpower status, frustration over a lack of economic opportunities and basic democratic freedoms, and many more factors, point towards a deep divide between America and much of the world.”

Batra said the United States—like many other countries and institutions—faces the difficult challenge of communicating its policies to increasingly skeptical—and even hostile—audiences overseas. He said a June 2003 Pew Research Center 20-nation public opinion survey found extremely unfavorable attitudes towards the U.S.



Dan Shine, a newspaper reporter and editor the past 17 years, joined the WDI staff March 1 as its manager of external communications.

Shine handles media inquiries, connects reporters with WDI experts, and promotes the institute’s initiatives to its diverse constituents and media members.

He is a graduate of Michigan State University and has worked at the *Dallas Morning News* and the *Detroit Free Press*. ■

Executive Education Update

William Davidson Institute Executive Education Runs General Management Program in Bratislava

WDI's Executive Education department launched its flagship 10-day mini-MBA certificate program in Bratislava, Slovak Republic this May.

The General Management Program (GMP) attracted 29 executives from five countries—Czech and Slovak Republics, Ukraine, Serbia, and Kazakhstan. Participants included country managers, marketing directors, chief operating officers, finance managers from multinationals—such as Oracle, Pfizer, U.S. Steel—and regional firms such as SPP, the Slovak national gas company.

The GMP is designed to teach cross-functional management skills in five key management areas: finance, management accounting, marketing, strategy, and leadership. The program is taught according to the case study method and is designed to be hands-on and interactive.

“Participants were really excited by the material,” said Amy Gillett, director of Executive Education at WDI.



Networking with peers from other companies is a key benefit of the GMP.



Teamwork is an integral part of the GMP. Here participants work through a management accounting case during a break-out session.

“They were asking lots of questions during the sessions and talking about ways in which they could apply the material to their companies.”

WDI partnered with the Centre for Advanced Studies of the University of Economics in Bratislava to offer the GMP. The program was taught in English by professors from leading institutions including University of Michigan Business School, IMD-Lausanne, and University of Economics.

The institute has conducted this program successfully in Zagreb, Croatia since 1998 in partnership with the Zagreb School of Economics and Management. WDI has been offering management training programs in Central Europe, Asia, and Latin America since its founding in 1992.

In 2005, WDI plans to run the GMP in three locations: the Slovak Republic, Croatia, and Greece. To receive information about the 2005 General Management Program sessions, please email your name and contact information to wdi_ee@umich.edu. ■

Research Update

Transition Conferences Bring Together Academics, Policymakers, Foundations and the UN



Chong-En Bai, Zhigang Tao, David Li, Jiahua Che, Yingyi Quian

The William Davidson Institute, together with the London-based Center for Economic Policy Research (CEPR), the Vietnamese Academy of Social Sciences (VASS) and the United Nations Development Program (UNDP) in Vietnam, organized the annual International Conference on Transition Economics (ICTE) in Hanoi, Vietnam May 27-31.

The conference, made possible through generous Ford Foundation funding, brought together leading scholars to discuss issues central to transition economics. The academic conference was followed by a UNDP-organized International Policy Conference on Transition Economics.

The policy conference featured several academics who attended the ICTE as well as other top policy makers and scholars from Central and Eastern Europe, Vietnam and neighboring countries to present a series of “transition lessons learned” to an audience of nearly 300 scholars, policymakers and members of civil society from various transition countries. Yegor Gaidar, one of the architects of Russia’s economic reforms, gave a

keynote speech. WDI faculty and research fellows giving presentations included Kenneth Leiberthal, Alan Deardorff, David Li, and Gerard Roland.

The two-part conference series proved beneficial to all participants. Researchers had the opportunity to share ideas and feedback in a traditional academic format at the ICTE, while the policy conference provided a forum in which the theories and findings were presented and discussed in an applied format accessible to a larger general audience.

Vietnamese researchers appreciated the access to foreign research materials—the display of conference papers, WDI publications and various materials sent by the journal *Economics of Transition* were quickly snatched up before the conference even began.

Both the Vietnamese researchers and policymakers remarked on the high quality of papers and presentations. Vietnamese participants shed light on the “Vietnamese experience” through several excellent conference papers as well as through informal conversation about Vietnamese culture and politics.

Vietnamese economists participated enthusiastically in both conferences. Several of the Vietnamese participants have already submitted papers to the WDI working paper series, and it is anticipated that several Vietnamese academics, policymakers and non-governmental organizations will contribute to the WDI policy brief series.

WDI hopes to continue to utilize this model of combining academic and policy conferences as a vehicle to bring together “thinkers and doers.” We also hope to build on our relationship with VASS and other non-governmental organizations and foundations active in Vietnam.

For a full conference report, list of participants and additional information, please see http://www.wdi.bus.umich.edu/events/vietnam/vietnam_04.htm.

For more information on this, as well as other conferences, events or research initiatives, please contact Kelly Janiga, Manager of Research Programs, at janigak@umich.edu.

Global MBA Projects Update

MBA Students Craft Strategic Plan To Help Employ Land Mine Survivors

Since 1992, the William Davidson Institute has conducted 480 MBA student consulting projects under its Global Projects program. The program has touched more than 1,800 students and provided project-based assistance to about 100 international organizations including multinationals, local firms, nonprofits and non-governmental organizations.

One such recent project had a team of University of Michigan MBA students—in conjunction with the Davidson Institute—working with the Nobel Prize-winning organization, Landmine Survivors Network (LSN). Founded in 1997 by land mine survivors Ken Rutherford and Jerry White, LSN has fought tirelessly to empower individuals, families and communities affected by land mines to recover from trauma, reclaim their lives, and fulfill their rights.

The organization helped lead the coalition that won the Nobel Peace Prize for bringing the 1997 Mine Ban Treaty to life.

The Michigan students assisted the organization with developing a



Land mine survivor sells books on the street.

strategy for the economic integration of land mine survivors in Vietnam.

In order to identify recommendations for how LSN can achieve this objective, the students performed primary and secondary research, interviews, data collection and analysis both in the U.S. and Vietnam. Interviews and data collection in Vietnam were conducted during two weeks in Hanoi and Ho Chi Minh City.

During the course of their consulting engagement, the team conducted more than 60 interviews with key constituents in the U.S. and Vietnam. Interview subjects included survivors, officials from non-governmental organizations, domestic and foreign investors, business owners and managers, philanthropists, and government officials.

The team's recommendations to LSN focused on providing land mine victims in Vietnam with skills and knowledge that will allow them to compete in a difficult employment environment.

LSN will assume a leadership role and coordinate with local organizations to operate vocational training



MBA student team in Vietnam

centers. The organization also will enhance the quality of the vocational training currently offered, tailoring its initial program offerings to reflect the economic climate in rural, under-developed areas.

In addition to vocational training, the student team identified other potential opportunities LSN can consider as secondary opportunities in the longer-term—including entrepreneurial training, employment programs, providing access to seed money for small business creation, and launching other educational initiatives.

Using the team's recommendations as a framework, over time LSN will refine an economic development model that it can replicate in other areas within the region as part of the organization's overall global expansion strategy.

For more information on the Davidson Institute's Global Projects initiatives, please contact Nancy Weatherford at weathern@umich.edu. ■

Technical Assistance Update

Institute Will Train Macedonians; Submits Proposal To Work In Morocco

WDI has been awarded two contracts in the past six months and has applied to either lead or participate in several new projects.

In May, the Eurasia Foundation formally approved the WDI proposal to carry out "Phase II" of its two-part project to build an American-style business education program at the International Business School "Kelajak Ilmi" (IBS) in Tashkent, Uzbekistan.

During Phase II, WDI will re-establish the IBS Advisory Board, finalize a long-term strategic plan, and develop alternative revenue streams for the school. Dr. Ned Kalb, a retired Purdue University administrator and agricultural economics professor, was recently hired by WDI to act as the managing director of IBS and the institute's local "chief of party." Kalb is scheduled to start July 1.

IBM Consulting announced recently that preliminary approval was given to a proposal submitted by an IBM-led consortium, including WDI, to design and implement macroeconomic development projects throughout the emerging markets world for the US Agency for International Development (USAID).

The IBM team submitted its final proposal to USAID in May after a

series of negotiations and hopes to have a contract in place before the end of the summer. The total value of the contract is \$650 million. The institute's role in this five-year project will be to address tax policy, trade and investment policies, as well as more general macroeconomic and gender-related issues.

Key WDI faculty associates include professors Joel Slemrod and James Hines in the area of taxation, professors Robert Stern and Alan Deardorff in trade, and professors Jan Svejnar and Katherine Terrell in the area of macroeconomic adjustment.

WDI is a member of another IBM Consulting-led consortium to pursue projects under a recently submitted proposal to manage financial sector reform and development projects in global emerging markets. WDI will be the key partner in charge of "knowledge management and dissemination."

The institute submitted a proposal in April to the U.S. Department of State's Middle East Partnership Initiative (MEPI) to strengthen skills among entrepreneurs and senior managers of small and medium-sized companies (SMEs) in Morocco. The goal of the project is to promote job creation and utilization of the opportunities presented by the recently ne-

gotiated Free Trade Agreement with the United States.

The \$450,000 project will involve short-term training offered in Morocco through our local partner, Al Akhawan University, and four consulting projects in the areas of tourism, handicrafts promotion, and SME development. WDI expects to be notified about funding for this contract in late summer.

USAID via World Learning accepted WDI's proposal to train 11 corporate spokespeople from Macedonia on "Developing Shareholder Awareness, Protection, and Democracy." The program will take place in July.

The first week of the two-week training program will involve classroom instruction, meetings with business journalists and site visits to Detroit-area companies. The second week will take place in Washington, D.C. and in New York City, so that participants can visit regulators and law firms that specialize in this area. That portion of the program will be managed by WDI's partner, Georgetown University's Center for International Education and Development.

In other news, WDI will hire a full-time director of Technical Assistance. For more information on this job posting, go to the "Employment Opportunities" link on our Web site. ■

EU Enlargement's Effects On Transatlantic Relations Are Discussed at Conference



Daniel Hamilton, executive director of the European Union Center in Washington, D.C.

The William Davidson Institute, along with the European Union Center at the University of Michigan, hosted a conference March 24 on Capitol Hill on the effect of the expansion of Europe on both the political and the economic relationship between the United States and the European Union.

WDI Distinguished Scholar and former U.S. Secretary of State Madeleine Albright chaired the conference and led off the discussion by articulating a theme that was repeated several times during the day—that a strong and united Europe is good for America, as a strong and united America has been critical to the survival of Europe over the past century.

“The EU and the U.S. each have an enormous stake in the economic health of the other and we also have a mutual stake in security,” she said. “There should be no question that the U.S. and Europe belong on the same side fighting terror, promoting democracy and securing peace.”

The conference began with three members of Congress airing their views on current political differences between the U.S. and Europe, and ended with senior executives and economic experts asserting the importance and vitality of the economic ties between the two.

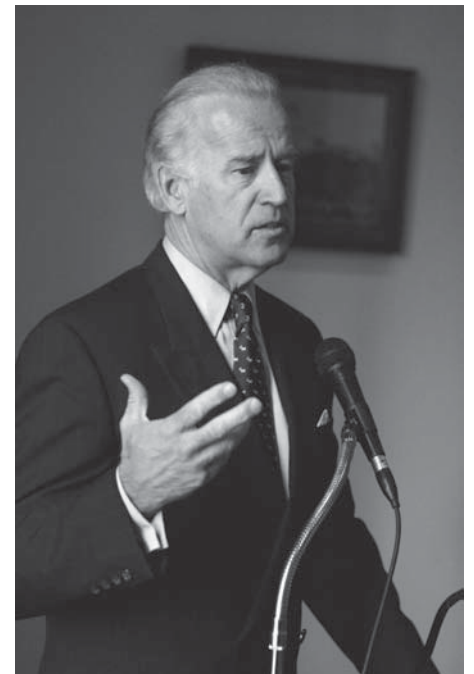
The consensus of most participants was that both political and economic ties could improve despite the frictions that naturally arise from increased interaction. While some speakers were concerned by the lack of interest and understanding that citizens of both regions manifested towards each other, all agreed that universities and institutes could play an important role in educating citizens and facilitating interactions between decision-makers on either side of the Atlantic.

U.S. Sen. Joseph Biden, D-Del., the ranking Democrat on the Senate Foreign Relations Committee, began with some strong statements about what he described as a crisis in transatlantic relations. He told the European contingent that they shouldn't criticize U.S. policy on the Iraq War because they didn't offer any real solutions.

“The truth of the matter is, there were really no very constructive alternatives offered by Europe for how to proceed relative to a man whether or not he has weapons of mass destruction and was in violation of every UN resolution that he signed,” Biden said. “I met with the heads of state of every one of your countries sitting up here. When I asked them, ‘What is your idea?’ it was basically, ‘Blah blah blah—international cooperation.’ As they say in the slang of America, ‘Give me a break.’”

Gunter Burghardt, head of the delegation of the European Commission in Washington, D.C. disputed the somewhat negative view of the current relationship between the U.S. and Europe reflected in the comments of the congressmen.

“Our American speakers have learned apparently the art of the discourse while they expect from us to make the punchy points,” he said.



U.S. Sen. Joseph Biden, D-Del.



*Catherine Novelli,
assistant U.S.
Trade Representative
for Europe.*

changes that would accompany EU expansion and the impact it would have on EU/U.S. business and trade.

“We have to strive for the middle way.”

He, along with other speakers, predicted that the expansion of Europe provided the opportunity for improved transatlantic relations.

While the first part of the conference focused on political relations, the second half was about the economic



Aleksander Smolar, president of the Stefan Batory Foundation (left) and Gunter Burghardt, head of delegation of the European Commission in Washington, D.C.

After May 1, Europe will be the world's biggest economy, according to outgoing WDI Executive Director Jan Svejnar, and although the new member countries are small, they are growing much more rapidly than existing members.

The panelists agreed that EU expansion should make Europe a better trading partner for the U.S. and a better place for American companies to do business. The U.S. and Europe are by far the world's largest trading partners, with high levels of direct foreign investment flows.

Thomas Usher, chairman and CEO of U.S. Steel, cautioned, however, that the standardization of economic regulations will be positive only if more, rather than fewer, sensible regulations are adopted. Jeff Fettig, president and COO of Whirlpool Corp., echoed this point when he argued that the new member states of Central Europe should avoid adopting Western European labor standards that would decrease workforce flexibility and thereby make foreign direct investment in Central Europe less attractive.

Catherine Novelli, assistant U.S.

Trade Representative for Europe and the Mediterranean, noted that the European economies have historically had high tariff differentials. Tariff decreases to a common European external tariff will help U.S. companies compete and should increase American exports to the accession countries.

She asserted the importance of continuing bilateral trade and investment agreements, a policy opposed by some EU member states. She also expressed her hope that the accession countries will represent a pro-market view in internal EU negotiations about economic regulation and trade policy, since they would benefit from the resulting economic growth.

Both Gary Litman, vice president for Central Europe and Eurasia, U.S. Chamber of Commerce, and Daniel Hamilton, director of the Center for Transatlantic Relations at Johns Hopkins University/SAIS, emphasized the dramatic change in the economic structure of the world since the collapse of the Soviet Union, and urged U.S. and European policy makers to emphasize the strong economic basis of the transatlantic relationship.

The U.S. is the most profitable market in the world for European companies and vice versa. Globalization, said Hamilton, is primarily a transatlantic phenomenon. During the Cold War, the U.S./European challenge was to protect vital political relationships from small economic disputes. Now, as was manifested in the first session, the challenge is to protect vital economic relationships from political differences. ■

Economists, Business and Labor Leaders Debate Impact of Off-shoring at DC Roundtable

The William Davidson Institute brought U.S. and developing country policy makers, business leaders and labor representatives to Capitol Hill to discuss the globalization of service activities and off-shoring. Among the questions debated were:

- **Is the trend towards globalization of service activities good or bad for U.S. workers, and the U.S. economy?**
- **What should U.S. policies be in the face of this trend?**
- **What is its effect on the developing countries that are attracting IT-related service jobs?**
- **What should developing countries do in the face of protectionist sentiments in the U.S.?**

The April 23 conference clarified areas of agreement and disagreement, as well as questions that remained. It also served to launch a new research initiative on the part of the Davidson Institute, which will collect existing research and best practices as well as generate new research on the globalization of services. Results will be circulated among conference participants and the broader policy and business community to further the debate on offshoring.

C.K. Prahalad, University of Michigan Business School professor, argued that what has been called “off-shoring” is really part of a process of global industrial restructuring, and that rather than trying to protect the status quo countries and

companies should be working to create the future.

India attracts investment and jobs because of low labor costs, its large pool of educated workers, improvements in business process and quality, and an improving legal and regulatory environment. This process of global restructuring, however, does more than move jobs to low wage countries. It also creates huge new markets for Western firms, as the global balance of purchasing power shifts.

Dr. S. Narayan, the then-economic advisor to the prime minister of India, noted that while the outsourcing of information technology jobs to India has received a lot of attention, the IT sector only accounts for 3.2% of Indian gross domestic product.

In addition, while 15-20 million people enter the Indian workforce each year, the entire IT sector employs only 600,000 people. He further argued that the off-shoring of some types of work has the net effect of creating jobs in the U.S.

“The opportunities for United States companies is much greater as a result of this offshoring,” Narayan said.

Kenneth Lieberthal, Davidson Institute distinguished fellow and member of President Bill Clinton’s National Security Council, echoed points made by Prahalad and Narayan by arguing that China is a profit center for U.S. companies—not a source of job loss—despite the large number of manufacturing jobs that



Ralph Maly, left, of the Communication Workers of America makes a point during a break in the conference.



New York Times op-ed columnist Thomas Friedman speaks at the Globalization of Service Activities conference.



U.S. Rep. Sander Levin, D-Mich., and Dan Griswold of the Cato Institute listen to the discussion.

have moved there. The Chinese anticipate economic growth from attracting an ever-increasing number of manufacturing jobs, but China represents a huge market for the U.S. service sector.

Among those voicing concerns about the off-shoring trend, Ron Blackwell, director of corporate affairs for the AFL-CIO, argued that global labor



Above: Jeff Lande, vice president of Information Technology Association of America, listens to another speaker.

Below: Gene Sperling, senior fellow at the Council on Foreign Relations, discusses the offshoring issue.



market integration will lead to wage convergence, and that the U.S. standard of living may fall.

“I want to know how we’re going to establish mechanisms so that as we double the labor force in the world we can assure that they’ll have more rising standards of living and contribute to a more balanced international economy,” Blackwell said.

New York Times columnist Tom Friedman said that the U.S. was losing initiative as leader of the global economy and was being replaced by global networks such as Infosys. Friedman said that while U.S. investment in research and development is falling, “the Democrats are wasting time debating NAFTA and the Republicans are talking about going to Mars.” He asserted that the U.S. needs the shock therapy of India telling us, “We’re eating your lunch.”

Shang-Jin Wei of the International Monetary Fund cited statistics showing that the U.S. is a net “in-sourcer” of services in dollar terms, and that emerging markets do more off-shoring to developed countries than the other way around.

Jeff Lande, vice president of the Information Technology Association of America, noted that only 2-3 percent of the overall IT industry in the U.S. is outsourced to other countries, and as labor costs in India continue to rise there will be even less incentive to move jobs abroad.

One who argued against restrictions on outsourcing was Dan Griswold, associate director of the Center for

Trade Policy Studies at the Cato Institute. He gave several examples of the impact of denying companies state contracts when they outsource, which resulted in huge increased taxpayer costs to save just a few U.S. jobs.

“I think this is a costly and inappropriate move by the government,” Griswold said.

Gene Sperling, national economic advisor under President Clinton, stated that the U.S. is not serious enough about adjustment policies that would help workers who lose jobs due to off-shoring, and that such policies need to be universal and simple in order to be effective. Telling people who have lost their jobs that the larger economic outlook is good is not a viable political option, a point brought up by Congressman Sander Levin as well.

Robert Kennedy, incoming executive director of the Davidson Institute, closed the conference by voicing some of his views on off-shoring while thanking participants for sharing their many divergent viewpoints.

Kennedy argued that the U.S. is better off as developing countries such as India and China get richer. He also reiterated the point that the off-shoring phenomenon is not that large, relative—for example—to the number of voluntary job changes in the U.S. And globalization in general—and off-shoring in particular—are phenomena that policy makers can’t stop so the best course of action is to look to the future and create innovative solutions to new problems as they arise. ■

Albright Visit

continued from page 3

down on violence and make peace on terms Israel can accept.

“I only wish it were that simple.”

A stable and democratic Iraq would be great, she said, but it alone will not change the views and attitudes of Arabs and Palestinians on how they have been treated over the years or what is an acceptable outcome in the Middle East.

Despite the fact that there is no good model of Arab democracy, many Arabs say they want democratic values such as freedom of expression, multi-party systems and equal treatment under the law, Albright said.

One troubling hurdle, she said, is the treatment of women.

Albright said despite the contentions by Arab men that Islam and the Koran dictate how women are treated, there are no prohibitions to keep women from driving, voting, working or running for office.

“I am not among those who believe the West has a right to dictate how women in Arab countries are treated,” she said. “But I believe we have a responsibility to voice our opinions until Arab women are empowered to voice theirs.”

The key to succeeding in establishing democracy in the Middle East is getting across the message that is at the heart of democracy. That is, that every individual counts.

“If this principle does not become the guiding objective of governments



A happy student with an autographed Albright book.

and citizens in the Middle East, democracy will not spread no matter what we do,” Albright said. “If it does, democracy can not be stopped no matter what its adversaries might attempt.”

The next day, more than 400 people crowded into Hale Auditorium to hear Albright talk about whether international institutions such as the United Nations and the World Trade Organization are showing their age. Those who couldn’t find seats or room in the aisles filled two overflow rooms and watched the speech on television monitors.

Albright said those institutions still play an integral role as arbiter of what is right and wrong around the globe and should be embraced by the United States and other countries. It is usually a lack of leadership that negatively affects these institutions more than anything else.

“The result has been a surplus of finger pointing and a deficit in progress toward goals that should unite most of the globe,” Albright said.

Albright emphasized that the U.S. should never cede its foreign policy to the UN or allow it to block the country’s right to use force legally. But the U.S. should try to improve

relations with the UN for the benefit of the world by displaying good leadership.

Albright also said the U.S. should take a leading role in the debate about the costs and benefits of globalization.

She said after she left office, she chaired a study on the question of globalization and found that most people around the world like the idea. They like free markets and democracy but have problems with the way the benefits of globalization are distributed. People feel too often that with a global economy, the rich get richer and the poor remain poor.

“Our explicit goal should be to ensure that the benefits of trade, investment and the movement of capital are more widely shared,” Albright said.

While the U.S. looks to the future, nervous about the specter of domestic terror, Albright said joining with international institutions is a must despite any imperfections. Critics of these international institutions ask why we should worry about their agendas of global climate change, trying war criminals or building peace in Africa because, “after all, we are America,” Albright said.

“My reply is that we should care precisely *because* we are America,” she said. “We have a right to do what is necessary to defend our citizens, territory and interests. But we should recognize that our interests are generally well served by a global system of institutions, treaties and laws that—although flawed—provide a broadly accepted standard for separating right from wrong in world affairs.” ■

New Director

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Kennedy received bachelor's degrees in economics and political science from Stanford University, a master's degree in management science from the Massachusetts Institute of Technology, and a master's degree and doctorate in business economics from Harvard University.

"I am honored to be selected to lead WDI in the next phase of its growth," Kennedy said. "Jan built a strong foundation within the transition economics community, where we are clearly one of the leading institutions."

Kennedy said he will build on this foundation with three related initiatives.

Be more proactive about aggregating and disseminating leading-edge intellectual capital on emerging markets.

"We are in the process of developing some interesting technology tools that will allow active notification when user-specified content becomes available, such as papers or conferences on a particular topic, or anything about a country of interest," Kennedy said. "We will also add tools to facilitate discussion of research topics. We believe that these tools will make WDI a more attractive place for researchers to showcase their work."

Move to address additional audiences.

"WDI is well established in the transition economics community, but less

so with policy makers, business practitioners, business educators, and the media," Kennedy said. "We believe there is great opportunity for cross-fertilization among audiences. For example, drawing on leading edge research to produce policy briefs or teaching materials."

Kennedy has established a publications and external relations group and will be establishing a new business "briefs" series to complement the existing policy brief series. The institute also will be launching a teaching materials series, with collaboration and discussion areas for educators. And WDI has hired a media relations expert who is working with print and broadcast journalists to create a network among the media and interested academics.

Narrow the range of research topics funded directly, but significantly increase the funds committed to each initiative.

Kennedy said the institute will focus on three to five areas that are important policy or business issues in emerging markets, are not well understood, and are where WDI resources can make a difference.

"The idea is to tackle these topics such as globalization of service activities, for example, from multiple angles—economic, policy, business, etc.—and produce insights that inform more than one audience," he said.

The institute will continue to provide direct experience in emerging markets through student projects, executive education and technical assistance programs for development

agencies such as the World Bank and the United States Agency for International Development.

"Helping developing countries enter the global economy is an important part of our mission," Kennedy said. "These projects provide great opportunities and learning experiences for our students, and we can have a large impact by introducing best practices to local governments, educational institutions and businesses."

Institute founder William Davidson said: "We all felt that Bob Kennedy would be an excellent fit for the William Davidson Institute because of his significant experience as a management consultant and venture capitalist in emerging markets and his academic expertise studying corporate strategy and other key issues in these markets. We believe that his background and skills will help to sharpen and deepen the institute's expertise on emerging markets."

Business School Dean Robert J. Dolan, who also serves as president of the institute, said, "Bob's emphasis on the practitioner-oriented initiatives of the institute and making them relevant to economists, businesspeople and educators will help establish WDI as a gathering point for the study of emerging markets."

Kennedy said it is an exciting time to assume leadership of the institute. "I look forward to working with members of the WDI network to better understand their research interests and to discuss how we can help further their work," he said. ■



Five Questions With... *Dr. S. Narayan*

In April, Dr. S. Narayan, then-economic advisor to the Indian prime minister, visited the Davidson Institute. He met with students and spoke at the institute's wine and cheese reception. He also took part in the April 23 Globalization of Service Activities roundtable in Washington, D.C. Soon after he returned to India, the leadership of the Indian government changed. Voters elected a new government, and a new prime minister—Dr. Manmohan Singh—was appointed. We checked in with Dr. Narayan via email to see what the changes may mean for him and India.

- WDI:** When you were here, you said that your job was non-political. So, are you still employed by the government?
- N:** I have decided to move on. Directions of policies change with each government and it seemed better

to opt out. It was a decision that I took myself, not at anyone's bidding.

- WDI:** How many different prime ministers and governments have you worked for over the years?
- N:** In my 39 years of government service, I have seen all the prime ministers that India has had from independence. At senior levels, I have worked with prime ministers including Mrs. Indira Gandhi and Mr. (Atal Bihari) Vajpeyi.
- WDI:** What kind of changes, if any, do you see economically with the new prime minister?
- N:** The new government has announced, along with its allies, a common minimum program. The major focus appears to be a shift towards programs with a social focus, education, health and towards modernizing agriculture.
- WDI:** What do you plan to do now?
- N:** I propose to take a break and then look at options outside government. I like teaching, and academia may be an option.
- WDI:** What are the memories of government service that you take with you?
- N:** I go with the satisfaction that the system always treated me well and I had the opportunity to work in some of the most exciting positions in government. The high point has been the last five years where I have been actively engaged in creating and implementing policy, and have witnessed economic reforms take off. A lot remains to be done, though a lot has been achieved. This would be too short a communication for memories, but the satisfaction of seeing the results of one's decisions and the benefits to the citizens are memories which will always be there.

About the William Davidson Institute

The William Davidson Institute is a non-profit, independent, research and educational institute established at the University of Michigan Business School in 1992. A primary objective of the institute's educational, research and technical assistance programs is to develop the knowledge and insight necessary to improve the effectiveness of business activity in emerging markets. Managers, policy makers, students and faculty benefit from the many exchanges that promote a new understanding of the issues affecting successful business operations in previously planned and less-developed economies.

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