

# MARKET SIGHT LINES



## Keeping Our Edge

By Michael O'Keeffe, *Chief Investment Officer*

Recently we've covered [regulatory changes in China](#) that are part of their longer-term plans to become ever more competitive in the global economy. The U.S. is locked in productive competition with China, and so it makes sense to reflect inward and review our approach here on the home front. So, in this week's Sight|Lines, we review some key elements of the U.S. strategy to further strengthen our position in the world economy.

### U.S. Competitive Position

There are many ways to gauge or measure a country's competitive position globally, and one such measure is the World Economic Forum's [Global Competitiveness Report](#). While the 2020 report focused on pandemic recovery, the 2019 report ranked the U.S. second out of 141 countries, just behind Singapore. Here are a couple of quotes from the report:

- “The United States (2nd overall) is the leader in Europe and North America. Despite dropping one position it remains an innovation powerhouse, ranking 1st for business dynamism and 2nd for innovation capability.”
- “Only four economies score above 80 on the innovation capability pillar — Germany, United States, Switzerland, and Taiwan (China) — and only one-quarter score above 50.”

So, the report shows that the U.S. has a competitive edge over most countries. Our political process, of course, greatly influences our competitive strategy.

### Political Anchor

The U.S. is a democracy, and as such, our voters elect our representatives and our president based, at least in part, on their platforms to improve our lives, including our global competitiveness. Every four years, we elect a president with a specific agenda. House elections are held every two years. Senate seats are contested every six years on a rotating basis, with the Senate majority typically being contested every two years. So, in a way, our national strategy is constantly evolving, with major shifts occurring when a new party wins the presidency or an overall majority.

Former President Donald Trump entered office with a slight Republican majority in Congress and the opportunity to advance his *Make America Great Again* agenda, which drew from former President Ronald Reagan's 1980 election slogan, “Let's Make America Great Again.” In the wake of the 2016 election, the U.S. strategy include a focus on improving trade relationships, bringing back U.S. manufacturing, and increasing military spending. In December 2017, the Trump administration issued the National Security Strategy of the United States. The strategy outlined goals and objectives for four main pillars: 1) Protect the American people, the homeland,

and The American way of life, 2) Promote American prosperity, 3) Preserve peace through strength, and 4) Advance American influence. This included, among many other things, prioritizing emerging technologies critical to economic growth, such as “data science, encryption, autonomous technologies, gene editing, new materials, nanotechnology, advanced computing technologies, and artificial intelligence.”

President Joe Biden took office with a very slight Democratic majority in Congress and the agenda: *Build Back Better*. Pandemic relief was in most immediate focus, and we saw the American Rescue Plan Act signed into law totaling \$1.9 trillion. And while the focus remains on recovery, the Biden administration in March published its Interim National Security Strategic Guidance, and there is legislation in motion that focuses a bit more on the longer term and keeping our edge.

### **Current Legislation**

There are two bipartisan legislative packages making their way through Congress worth mentioning. The first is the *Infrastructure Investment and Jobs Act*. Totaling \$1.2 trillion over eight years, the programs will include investment in bridges, roads, clean water, alternative energy, and the internet. The effort is expected to contribute \$10 trillion to U.S. GDP by 2039, with the goal of maintaining our global economic leadership and our role as the world’s innovation engine.

The second piece of legislation is the *U.S. Innovation and Competition Act*, a \$250 billion bill designed to boost, for example, U.S. semiconductor production, scientific research, development of artificial intelligence, and space exploration. This bill was motivated, in part, by the dominance of other countries in some areas. For example, 75% of the world’s chips come from Asia. And the market share of semiconductors manufactured in the U.S. has fallen from 37% in 1990 to 12% today.

### **Private Industry**

U.S. companies continue to dominate on several fronts, including technology, healthcare, and heavy industry. And of course, our capital markets are the most liquid and efficient in the world. If you look downstream at American business competitiveness, you’ll see that of the world’s ten most valuable public companies, seven are American. Of the 797 startups valued at \$1 billion or more (also known as “unicorns”), 400 are American and 158 are Chinese. And based on the Boston Consulting Group’s 50 most innovative companies in 2021, more than half are American.

### **Conclusion**

We here in the U.S. are locked in productive competition with China, a country known to take a long-term view and develop/execute a long-term strategy to become more dominant in the world economy. But since the U.S. is a democracy with a regular election cycle, our strategy naturally evolves every two to four years as certain candidates, and sometimes their party, come into power. Through our process, the U.S. has maintained its competitive edge. And, as we look forward, we see evidence that our elected officials, and our companies, are working hard to maintain that edge.

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