



Rivals beyond Trade: America versus Japan in Global Competition; Rival Capitalists: International Competitiveness in the United States, Japan, and Western Europe

Review Author[s]:
Kent Jones

Annals of the American Academy of Political and Social Science, Vol. 535, The Arms Trade: Problems and Prospects in the Post-Cold War World (Sep., 1994), 233-234.

Stable URL:

<http://links.jstor.org/sici?sici=0002-7162%28199409%29535%3C233%3ARBTAJV%3E2.0.CO%3B2-8>

Annals of the American Academy of Political and Social Science is currently published by Sage Publications, Inc..

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at <http://www.jstor.org/about/terms.html>. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at <http://www.jstor.org/journals/sage.html>.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

JSTOR is an independent not-for-profit organization dedicated to creating and preserving a digital archive of scholarly journals. For more information regarding JSTOR, please contact support@jstor.org.

dream of having at their fingertips. It represents years of conscientious analysis; it is unsurpassed in the literature on aging.

MADONNA HARRINGTON
MEYER

University of Illinois
Urbana-Champaign

ECONOMICS

ENCARNATION, DENNIS J. *Rivals beyond Trade: America versus Japan in Global Competition*. Pp. xviii, 222. Ithaca, NY: Cornell University Press, 1992. \$24.95.

HART, JEFFREY A. *Rival Capitalists: International Competitiveness in the United States, Japan, and Western Europe*. Pp. x, 305. Ithaca, NY: Cornell University Press, 1993. \$32.95. Paperbound, \$16.95.

Despite the similarity in their titles, these two studies approach the issue of international economic competition from quite different perspectives. Jeffrey Hart seeks to identify sources of international competitiveness in the institutional linkages between business, labor, and government, while Dennis Encarnation examines direct foreign investment as a means of market access.

Jeffrey Hart's study, *Rival Capitalists*, seeks to link "state-societal arrangements"—interaction between business, labor, and government institutions—with the level of international competitiveness in Japan, France, the United Kingdom, Germany, and the United States. He compares the role of these institutions from country to country in formulating industrial policies and other government measures to improve the performance of the steel, automobile, and semiconductor industries, which are used as bellwethers of competitiveness. Ger-

many and Japan emerge as the "winners" because of their ability to harness labor-business and state-business partnerships, respectively, as a means of promoting the efficient diffusion of new technologies. Hart concludes that state-societal arrangements in the other countries are largely unsuccessful, due in part to the domination of one group's influence over the others. For example, business has the greatest influence in economic policy in the United States, labor in the United Kingdom, and the state in France, and in each case these countries suffer from the absence of joint commitments to innovation and technological change among societal groups.

Hart provides a useful account of industrial and trade policies in the three industries, as well as the institutional channels and linkages of policymaking in the countries under study. In addition, he rightly emphasizes receptiveness to technological change as a major determinant of international performance in these industries. His conceptual framework suffers, however, from an attempt to link industrial competitiveness in certain products with national competitiveness. In this regard, his choice of steel, automobiles, and semiconductors introduces problems into the analysis. In Europe and the United States at least, steel and automobiles suffered as much from mismanagement as from deficient state-societal arrangements, and their failure to adapt to new technologies can be traced to their insulation from international competition, aided and abetted by trade restrictions.

Furthermore, there is a basic conflict between Hart's approach and an economic analysis of the gains from trade. National competitiveness as an economic concept should properly be measured as the ability of a country to improve its standard of living in a global economy, and in this sense, it is actually improved by allowing industries such as steel to

contract, shifting resources to more internationally competitive industries. Steel is in fact declining in each of the countries in Hart's study, indicating a market-driven, welfare-enhancing adjustment to shifting comparative advantage rather than declining national competitiveness.

In *Rivals beyond Trade*, Dennis Encarnation is concerned less with national competitiveness than with the impact of a country's foreign investment environment on market access. His well-documented research shows that local sales by multinationals in a foreign country are typically much higher than the volume of imports from these companies' home country—as long as the control of local operations through majority ownership by the multinational is not restricted. In addition, there is a linkage between trade flows and the presence in the host country of majority-owned subsidiaries, which will engage in intracompany trade with home country suppliers and distributors. The ability to establish a controlling interest in foreign operations thereby emerges as an important means of market access in the host country.

Encarnation focuses on the inability of U.S.-based multinationals to establish majority-owned subsidiaries in Japan. He argues persuasively that there are systematic barriers to foreign majority ownership of Japanese firms, although the barriers are no longer a matter of government policy. Whereas in the early postwar period, capital controls limited foreign ownership, since the late 1960s private restrictions in the form of cross-share holdings, contractual constraints on foreign equity holdings, and keiretsu arrangements have achieved the same result.

Encarnation's hypothesis invites comparison with allegations of informal Japanese trade barriers, and he draws directly from the strategic trade policy literature to suggest that Japan has pursued a conscious "strategic investment

policy." However, the notion that Japan has thereby captured economic rents at the expense of foreign countries, as predicted by the strategic trade literature, is dubious at best. If any rents have been transferred, they have probably gone from Japanese consumers to domestic oligopolies, which have taken advantage of a restrictive investment environment to reduce competition.

In light of the private, often informal nature of these investment restrictions, policy recommendations are difficult to formulate. Strategic investment screening by the United States or other countries would be counterproductive, and bilateral dispute settlement would have difficulty addressing unofficial barriers. A more productive path for reform may lie in more aggressive antitrust enforcement and an opening of distribution systems in Japan.

KENT JONES

Babson College
Babson Park
Massachusetts

LEADER, SHELDON. *Freedom of Association: A Study in Labor Law and Political Theory*. Pp. x, 325. New Haven, CT: Yale University Press, 1992. \$32.50.

Sheldon Leader, barrister and professor of law at the University of Essex, has written a book that is intellectually challenging and that is concerned with significant issues, such as the rights of workers to associate and to dissociate, the right to strike and the right to refuse to strike, the right of unions to take collective political action and the right of members to refuse to be associated with such action. It displays a familiarity with political theory and labor law in a number of societies—for example, the United Kingdom, France, and the United