

5 Interdependence and Increased Competition among the Industrialised Countries: Implications for the Developing World

Jeffrey A. Hart

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The past three decades have been ones of increasing interdependence and competition among the industrialised countries of the capitalist world. The international economic system set up by the United States and its allies after the Second World War permitted a rapid growth of world trade. In the 1970s, further reductions in barriers to international trade (in the aggregate) resulted in a widespread increase in the importance of world trade for all the industrial countries. A steady increase in the interpenetration of markets posed serious questions for those firms and industries which could not compete on an international scale. As a result of the reduced barriers to trade, and the inability of specific firms and industries to adapt to this change in the international economy, certain governments found themselves under attack for permitting major domestic industries to be exposed to 'unfair' foreign competition. In addition, these governments were criticised for not preventing a decline in the competitiveness of key industries. In some areas it was argued that the economy had become over-specialised and was not likely to provide the sort of financial returns on which growth in national economic prosperity depended.¹

The evidence for reduction in barriers to trade must be obtained in a somewhat indirect manner. Negotiated tariff barriers have clearly declined, as anyone who examines the record of multilateral trade negotiations will see. The average tariff levels of all the major industrialised countries have decreased, even when weighted for the volume of trade in different commodities. Looking at the United States in particular, the value of import duties as a percentage of the

Table 5.1 Ratios of imports and exports to production in major industrial countries in the 1960s and 1970s

A Ratios of imports to production of manufactured goods					
Year	France	Germany	UK	USA	Japan
1970	16.2	19.4	16.3	5.6	4.7
1975	18.0	24.2	22.0	7.0	4.9
1980	23.2	31.2	28.2	8.7	6.3

Source: World Bank, Market Penetration Data Base.

B Ratios of exports to production (excluding services)					
Year	France	Germany	UK	USA	Japan
1960	23.4	31.2	38.5	11.5	18.8
1970	30.6	40.5	50.4	14.4	22.1
1979	52.2	54.8	74.9	25.3	29.2

Source: Charles Lipson, 'The Transformation of Trade: The Sources and Effects of Regime Change', *International Organization*, 36 (Spring 1982) p. 423.

value of total imports declined from 18.4 in 1934 to 9.9 in 1946 to less than 5 per cent in the early 1950s. The 1960s witnessed a small, temporary increase in duties/imports, but by the late 1970s the duties went back down to 4 per cent.²

Furthermore the ratios of exports and imports to domestic production increased in all the major industrial countries (see Table 5.1). Also, the aggregate level of world trade outpaced the aggregate rate of growth of domestic production (see Table 5.2). It is hard to believe that the impressive rate of growth of world trade experienced in the 1970s could have been maintained without a steady or declining level of trade barriers.

Concomitant with the increased openness of international markets was the increasing ability of the previously less developed industrial economies to compete with the economically stronger economies. The most dramatic increase in competitiveness was experienced by Japan. In automobiles, for example, the Japanese share of world production jumped from near zero in the early 1950s to over 30 per cent in the early 1980s (see Table 5.3). While every industrial country experienced increased penetration of its domestic markets by imports, Japan was somewhat less affected than the other countries. Thus Japanese industries had become much more competitive internationally than they had been previously. While many political

Table 5.2 The growth of world trade (billions US dollars) 1947-85

Year	Exports	Imports
1947	48.6	53.3
1948	54.4	60.0
1949	55.1	60.1
1950	56.7	59.2
1951	76.9	81.6
1952	74.1	80.4
1953	74.9	76.6
1954	77.6	79.7
1955	84.6	89.4
1956	94.0	98.7
1957	100.9	108.5
1958	96.1	101.6
1959	101.9	107.1
1960	113.8	119.8
1961	115.0	121.3
1962	125.6	130.0
1963	134.1	141.4
1964	151.0	158.7
1965	163.6	172.7
1966	179.3	190.9
1967	188.2	201.0
1968	212.4	225.4
1969	246.0	258.4
1970	282.6	297.1
1971	315.8	330.9
1972	376.1	388.0
1973	523.4	535.1
1974	767.6	784.3
1975	805.6	825.1
1976	916.1	930.8
1977	1043.5	1071.1
1978	1203.2	1246.0
1979	1526.6	1568.6
1980	1875.5	1927.3
1981	1836.3	1908.0
1982	1705.2	1793.0
1983	1673.0	1731.8
1984	1777.1	1844.0
1985	1796.6	1883.3

Sources: For 1947-60, Gunnar Adler-Karlsson, *Western Economic Warfare 1947-1967* (Stockholm: Almqvist and Wiksell, 1968) p. 154; for 1961-78, International Monetary Fund, *Direction of Trade Annual*, 1982 and previous issues; for 1978-85, International Monetary Fund, *Direction of Trade Statistics: Yearbook* (Washington, DC: 1986).

Table 5.3 World shares in percentages of global motor vehicle production, 1950-85

Year	USA	Europe	Japan
1950	75.5	19.8	0.0
1955	67.6	27.2	1.5
1960	47.9	41.2	4.8
1965	45.7	39.1	7.8
1970	28.3	45.1	18.4
1975	27.3	41.2	21.2
1980	20.8	37.7	28.6
1985	26.2	35.9	27.8

Source: Computed by the author from Motor Vehicle Manufacturers Association, *World Motor Vehicle Data 1982* (Detroit, 1982) p. 39; *Motor Vehicle Facts and Figures* (Detroit, 1986) p. 28.

groups in Europe and the United States claim that the Japanese achieved their successes largely as a result of highly protectionist trade barriers at home, with a particularly strong reliance on non-tariff barriers, the ability of Japanese firms to become low-cost producers of whatever good they manufactured cannot be explained in this way.

In the late 1970s and the early 1980s, there appeared to be a decline in the legitimacy of the international regime for trade. A series of new tariff and non-tariff barriers was adopted in a variety of major industrial countries. Countries began to quarrel over the basic rules in international trade. More specifically, the United States, with its general avoidance of direct subsidies and directing measures to assist specific firms and industries was forced to rely largely on border measures (tariff and non-tariff barriers) to protect domestic firms from international competition. Japan and a number of European countries relied more heavily on targeting measures, either to support industries suffering from international competition or to ease their exit from the market. Both border and internal targeting measures stemmed from the desire to protect domestic firms, and they differed primarily in the types of policy instruments used to do this. Border measures such as tariffs and non-tariff barriers went into effect only when goods attempted to cross the boundaries of the nation-state, while targeting measures, even though they affected trade flows, were carried out primarily through government policies toward investment, competition, research and development and so on, which were traditionally considered to be 'domestic' policies. The

United States adopted an international policy of opposing targeting practices; the Japanese and Europeans defended them in terms of their right to national sovereignty. The Japanese and Europeans accused the United States of abandoning its commitment to the liberal trade regime it had been responsible for establishing after the Second World War.³

Thus a common challenge to the domestic systems of major industrial countries, posed by the evolution of the international economic system, resulted in different responses. The differences in responses undermined the legitimacy of the international trading regime. Much of the recent conflict among the capitalist industrialised countries can be explained in precisely this way.

RECOVERY AND THE DECLINE IN US DOMINANCE

The United States emerged from the Second World War with an overwhelming advantage in industrial capacity and production. Not only had less of its productive capacity been destroyed; great technological advances had been made during the war, creating further advantages for US industries over their competitors abroad.

The international regimes established under US leadership after the Second World War reinforced the strength of US industries in international competition. They reflected the US belief in the desirability of relatively unimpeded trade and investment flows, which would allow US firms to expand their operations abroad through trade and direct foreign investment.⁴ Of course, various exceptions to the liberal trade and investment regime were allowed. The European Coal and Steel Community (ECSC), in organising and limiting competition in those two sectors in Europe, effectively closed some European markets to US exports and investments. This was not a major concession on the part of the United States, given that high transportation costs ruled out a major increase in exports from that country. But the inability of the US steel industry to internationalise later on was partly the result of US toleration of the ECSC.

Similarly, the creation of the European Economic Community, with its common external tariff, constituted a challenge to the principles supposedly underlying the international economic regimes set up after the Second World War. The most favoured nation principle in the General Agreement on Tariffs and Trade (GATT) required that all signatories of the GATT apply the same tariffs toward all the other signatories. The EEC common external tariff was clearly incon-

Table 5.4 Relative per capita income in the larger industrialised countries (US = 100)

Country	1970	1975	1981
United States	100	100	100
Canada	95	109	89
France	76	82	95
F.R. Germany	90	90	105
Japan	55	62	79
United Kingdom	51	51	71

Sources: For 1970 and 1975, US Department of Commerce, *Statistical Abstract of the United States* (Washington, DC: Government Printing Office, 1979); for 1981, World Bank, *World Development Report 1983* (New York: Oxford University Press, 1983) p. 149.

sistent with this principle. For quite good political and security reasons, the United States did not oppose this development. Some scholars suggest that a deal was struck whereby the United States would accept the trade discrimination inherent in the Treaty of Rome in exchange for free access for the direct foreign investments of US-based multinational corporations in Western Europe. Recovery both in Europe and Japan were judged to be crucial to the survival of anti-communist and pro-United States national regimes. US occupation authorities in Japan and Germany actually may have accelerated the recovery of industrial production in those two countries by breaking up pre-war cartels and permitting continuity of management.⁵

By the late 1960s, the Europeans were reaching a level of per capita income close to that in the United States. By the end of the 1970s, four or five countries would match or exceed that level (see Table 5.4). The growth of production in Europe and Japan was accompanied by a massive increase in the volume of international trade. The large increase in trade was facilitated by a series of international trade negotiations, most notably by the Kennedy Round of 1961-7 and the Tokyo Round of 1971-9. Reductions in average tariff levels are significant.

By the late 1970s, however, there appeared to be problems in a number of major industries which were creating strong protectionist pressures throughout the industrialised world. The general trend towards increased liberalisation of world trade had not been reversed, but tensions among the industrialised countries had been mounting for a variety of reasons: (1) the weaker industrialised

countries became stronger and more diversified economically and began to challenge the predominance of the stronger industrialised countries in new markets; (2) the industrialising countries of the developing world began to compete in international markets for the simpler, labour-intensive goods, not just creating competitive pressures on firms but also (in conjunction with the increasing internationalisation of production through multinational corporations) creating strong downward pressures on the wages of workers in labour-intensive industries; and (3) global recessions accentuated the effects of both of the previous points. To demonstrate more concretely how this happened, the cases of textiles, steel, automobiles and semiconductors will be discussed below.

THE TEXTILE INDUSTRY

The first harbinger of the conflicts to come was the reaction by the United States to large increases in exports of cotton clothing from Japan in the late 1950s and early 1960s. The domestic textile industry of the United States complained bitterly to a series of presidents, starting with Eisenhower, until the government negotiated a 'voluntary export restraint' with the Japanese government (called the Long Term Agreement). The use of voluntary export restraints (VERs) was favoured over tariffs because one could limit imports through a bilateral agreement without directly undermining GATT rules on trade barriers. The charter of the GATT explicitly allowed for this sort of government-to-government negotiation to deal with the consequences of sudden surges in imports. Unfortunately a number of voluntary export restraints became institutionalised, because they were the result of conflicts caused by long-term shifts in production cost advantages and not, as asserted by certain governments and firms, temporary and reversible market conditions. The country requesting a VER was in effect merely delaying the eventual decline of its uncompetitive firms and industries. The delay, by reducing incentives for disinvestment and restructuring, actually may have accelerated the decline and thus increased the incentives for firms and workers to seek aid (including further barriers to trade) from governments.

A voluntary export restraint is generally a quantitative limit on the amount of goods to be imported from a specific country or group of countries. To compensate for the limitation, the exporting country

will generally raise prices so as to generate more profits from the smaller amount of goods exported. It may do so with impunity in this case because the domestic producers cannot cut their prices without suffering losses in profits (remember their average production costs are higher than those of the exporter). The slightly higher average prices for goods made possible by a VER provide a guaranteed profit for both exporters and domestic firms, but tend to provide higher rates of profit to the exporters. For the VER to do any long-term good for the domestic firms, these firms must reinvest their temporarily increased profits immediately and wisely to equalise their production costs with foreign firms. The human tendency of domestic managements, however, is to be satisfied with the slightly higher profits caused by the VERs and to lobby for more trade restriction as a way of guaranteeing these profits, rather than making the more difficult decisions required for reducing production costs (that is, closing inefficient plants, diverting revenues away from dividends and employee benefits in the direction of capital investments, adopting new and perhaps unproven production technologies and so on).

In addition, export restraints encouraged the diversification of the production of the exporting country out of products in which they had had early success into new products. For example, the VERs with Japan in cotton textiles resulted in rapid efforts to diversify into wool and synthetic textiles. Similarly VERs with one country tended to result eventually in VERs with many countries. Confronted with a VER for a specific product, the producers had an incentive to invest in overseas production in a country which had not agreed to a VER with the importing country, especially if that country had the right sort of labour force and wage structure. Thus the United States-Japan VER rather rapidly became a VER system limiting exports from a wide variety of countries (including the industrialising countries of South-east Asia) to the United States and Europe (in the form of the Multi Fibre Arrangements), and this system grew to include cotton, wool and synthetic fibres.⁶

THE STEEL INDUSTRY

A similar process occurred in the steel trade, albeit for slightly different reasons. When they decided to rebuild their steel industry in the 1950s, the Japanese took a gamble that a new production technology, utilising the 'basic oxygen process', would allow them to

produce steel at costs comparable to those of the most efficient US and German firms. This gamble paid off handsomely. When the price of imports of iron ore and coking coal declined in the 1960s and 1970s, the Japanese steel industry emerged as the lowest cost producer in the world. Since shipping costs also declined during this period, the potential for exporting steel and steel products rapidly increased. The US steel industry and most of the European industry, meanwhile, was slow to perceive the challenge of the new process technology. Most US firms had invested heavily in open hearth furnaces in the 1950s and thus were loath to make the new investments needed to convert to the more efficient oxygen process in the 1960s and 1970s.⁷

Conflict in the steel trade therefore began again in the United States–Japan nexus, before eventually spilling over into the trilateral sphere of United States–Europe–Japan. The level of import penetration (imports divided by total domestic consumption, that is domestic production plus imports minus exports) in steel increased from 1.7 per cent in 1956 to 10.3 per cent in 1965. It stayed in the low teens until the steel strike of 1968, when import penetration jumped to 16.7 per cent (see Table 5.5). The US steel industry put pressure on the Nixon Administration to limit imports, but settled for a voluntary export restriction with Japan which lasted for several years. When the 1974 Trade Act was being considered, the US steel industry lobbied hard and successfully for new rules governing the imposition of countervailing duties and the awarding of injury claims to firms and industries suffering from unfair trade practices of exporting countries and firms. These rules were considerably tightened in favour of domestic firms and industries in the 1979 Trade Act, again largely as result of successful lobbying on the part of the steel industry.⁸

In 1977, under heavy pressure from the industry, the United Steel Workers union, and the governors of the major steel producing states, the Carter Administration set up a system to establish a floor price for imported steel products. Called the ‘trigger price mechanism’, the system was based on a calculation of Japanese domestic production costs, allowing for a fixed rate of return and transportation costs to various US markets. This system was administered in such a way as to keep Japanese imports at a more or less constant level despite continuing cost advantages. It was supposed to give the US industry a breathing-space in which to re-equip existing plants or

Table 5.5 Import penetration ratios for imports of steel, automobiles and semiconductors into the US market, 1956–85 (percentages)

Year	Steel	Autos	Semiconductors
1956	1.7	1.6	—
1957	1.5	3.4	—
1958	2.9	8.1	—
1959	6.1	10.2	—
1960	4.7	7.6	—
1961	4.7	6.5	—
1962	5.6	4.9	—
1963	6.9	5.1	—
1964	7.3	6.0	—
1965	10.3	6.1	—
1966	10.9	7.3	—
1967	12.2	9.3	—
1968	16.7	10.5	—
1969	13.7	11.2	—
1970	13.8	14.7	—
1971	17.9	15.1	—
1972	16.6	14.6	12.9
1973	12.4	15.1	18.1
1974	13.4	15.7	23.9
1975	13.5	18.2	26.5
1976	14.1	14.8	26.5
1977	17.8	18.3	26.1
1978	18.1	17.7	28.2
1979	15.2	21.9	29.9
1980	16.3	26.7	31.7
1981	19.1	27.3	30.4
1982	22.0	27.8	32.5
1983	20.5	26.0	33.2
1984	26.5	23.5	33.8
1985	23.3	—	33.8

Note: Import penetration ratios are measured here in terms of units imported divided by units consumed domestically (production plus imports minus exports). The units for steel are tons of raw steel equivalent, for autos numbers of assembled passenger vehicles, and for semiconductors dollar values of shipments.

Sources: (a) For steel, American Iron and Steel Institute, *Annual Statistical Report*, 1959–80; *U.S. Industrial Outlook 1987*. (b) For autos, *Ward's Automotive Yearbook 1983* (Detroit: 1983) p. 106; James Womack, *Public Policy for a Mature Industrial Sector*, PhD dissertation, MIT, 1982, p. 24. (c) For semiconductors, *U.S. Industrial Outlook 1987*.

to diversify out of steel production. While some firms used this opportunity to make new investments in steel production processes, the largest US firm, US Steel, remained more or less as it was in steel, and tried to purchase firms in other industries in order to diversify its base. It was finally successful in buying Marathon Oil in 1982. The domestic politics of steel became more and more confused as the conflicting interests of managements, unions, local governments and the federal government became evident.

One unintended consequence of the trigger price mechanism was that it gave European firms and firms from the developing countries an opportunity to export to the United States. Since trigger prices were administered in such a way as to keep floor prices just about constant (if not slightly increasing) and since a number of European firms were either highly subsidised or had adjusted rapidly to growing international competition by adopting new production technologies, quite a few firms were able to export products to the United States at price levels competitive with both Japanese and US domestic producers. Overall import penetration levels rose dramatically in the early 1980s (from 16.3 per cent in 1980 to 22.0 per cent in 1982). The Japanese share remained more or less constant, while that of European and developing country producers rose quickly. The US steel industry pressed for new measures to shelter them from imports, this time viewed against Europe and the developing country exporters (of whom Brazil and Korea were the most important).

A rather bitter round of negotiation began in the summer of 1982 for a voluntary export restraint between the United States and the EEC. This negotiation ended in October of that year with an agreement that EEC producers would limit their share of the US market to 5.44 per cent.⁹ The internal EEC negotiations were especially intense, because the more efficient, privately-owned firms in Germany (supported by allies in the Netherlands, Luxembourg and Italy) claimed that they should be allocated larger proportions of the total EEC share relative to the less efficient and largely state-owned and subsidised firms of France, Britain, Belgium and Italy.

The Europeans were particularly angry about the way in which the United States handled the dispute. The internal EEC politics was geared to a recognition of the fact of over-capacity in the industry. Some firms had increased capacity despite steady or declining demand for steel in the EEC. Internal EEC price-cutting behaviour had been a problem in the past for the stability of the European industry,

so the institutions established by the ECSC treaty allowed for the setting up of emergency measures to administer prices and production. The ECSC treaty was invoked in the Davignon Plan of 1977, and a system of reporting of prices and production levels was instituted. A system somewhat analogous to that used in the United States established floor prices for European steel products. Instead of being based on Japanese production costs, these floor prices were based on the costs of the most efficient European producers (probably not all that different from Japanese costs). In the meantime the provisions of the EEC Treaty allowed the Commission and the Council of the EEC to ask the governments to limit the growth of productive capacity, through their potential veto over state subsidies, and allowed the Commission to encourage the governments to seek the closure of the least efficient plants, especially those controlled by state enterprises. This process had been difficult and slow, and it is understandable that the Europeans were angry when the US government upset the carefully negotiated arrangements in 1982, when it asked for export restrictions. US authorities seemed particularly insensitive to the growth of legitimacy within the EEC of the use of state revenues to encourage the restructuring of industries, rather than simply propping up inefficient firms.¹⁰

THE AUTOMOBILE INDUSTRY

The case of the trade in automobiles is again one in which a US-Japanese conflict expands to a broader international arena. The root of trade problems in automobiles, as in steel, is in the ability of the Japanese firms to become low-cost producers of assembled automobiles. The parallel is not exact, however, because Japan became the low-cost producer of small, fuel-efficient vehicles, but did not produce the larger vehicles traditionally consumed in the United States. Also Japanese efficiency in the case of automobiles was more the result of the organisation of production and its scale than of the choice of production technologies. It was only in 1979, after the second oil price increase and the massive shift in consumer preferences away from large cars to smaller ones, that Japanese imports became a serious problem for the US automobile industry. Import penetration jumped from 17.7 per cent in 1978 to 21.9 per cent in 1979 and 26.7 per cent in 1980 (see Table 5.5). An intense period of

lobbying for protection began in late 1979 and culminated in the first few months of the Reagan Administration in an agreement to negotiate a voluntary export restraint with Japan.

The Europeans were more uniformly competitive with the Japanese than the US firms in terms of their ability to produce inexpensive, fuel-efficient vehicles. Nevertheless higher labour costs would give the Japanese a price advantage in the European market were it not for the widespread use of non-tariff barriers to limit Japanese penetration. It is widely believed that the Japanese concentrated their early export efforts on the United States because they knew they would face fewer barriers there than elsewhere.

Whereas the response to the Japanese challenge in steel was highly divergent from firm to firm, with some being extremely sluggish and others rapidly adjusting, in the automobile industry there seems to have been a much more rapid response. Almost every major firm has changed its production processes to at least match the productivity of Japanese firms. Several firms have developed new models to compete with Japanese products. There has been a much greater stress on quality control. The overall result is that the world automobile industry is somewhat smaller, in the sense that there are fewer mass producers of a wide variety of models, and decidedly more global in perspective. The idea of a world car is still not completely viable, given the different tastes of consumers in different regions. Nevertheless there has been a clear homogenisation of design features to allow interchangeability of components while varying model designs for different markets.¹¹

One of the common features of adjustment to Japanese competitiveness in the automobile industry is the rapid spread of robotised assembly lines. This appears not only to save labour, but also to change the very nature of factory work. The robots typically do the most routine and tedious (and often unpleasant) work: welding, painting, simple assembly, and transportation of components and bodies through the assembly line. The computerisation of assembly lines tends to give workers greater ability to control the pace of work, while putting a greater value on work of a more complex sort than was previously available in automobile assembly plants (for example, servicing the robots and computers, following a single unit as it moves along the assembly line and so on).

The automobile industry produces durable consumer goods which have become fairly standardised. In this respect, it has a lot in common with a variety of consumer goods industries. A large propor-

tion of manufacturing involves non-standardised or customised products, however, examples of which are heavy generators, diesel locomotives, underground railway vehicles and large airframes. The production of all of these products is subject to economies of scale, just as in the automobile industry, but it is also subject to what are called 'learning curve' or 'experience curve' economies. These are reductions in cost which occur as workers and managers gain experience in the production of a specific product. Learning curves are theoretically independent of increases in investments in capital, labour or technology. They are the result generally of marginal improvements in the production process made over time by managers and workers.¹²

THE SEMICONDUCTOR INDUSTRY

A good example of an industry quite dependent on learning curve economies is the advanced semiconductor industry. There are standardised semiconductor devices, such as simple transistors, rectifiers, or widely integrated circuits (such as the Z-80 microprocessor or the 64K RAM memory device). Nevertheless there are a large number of products in the industry for which learning curves apply because of the rapid change in products. The US industry has been very successful in such products, while the Japanese semiconductor industry has consistently gained ground in the standardised part of the business. The Europeans are almost completely out of the picture in this industry because of the slowness of most European firms (Philips is the big exception) to recognise the direction of change.

The overt conflict in semiconductor trade at the moment is mainly between the United States and Japan. The Japanese firms have rapidly etched a niche for themselves in the US markets for standardised memory devices like RAMs (see Table 5.5). They also lowered prices for these devices more rapidly than had been expected. The result was to undercut the profitability of the medium-sized firms which had been the main innovators in US semiconductor production. Large firms like IBM and AT&T which produce semiconductors for their own consumption (captive producers) are less vulnerable to this sort of competition because they have diversified sources of income and continue to make a lot of money in related businesses: computers, telecommunication, office equipment, for example. All of the major Japanese competitors are also relatively

diversified and large companies. Thus the small and medium-sized US firms are complaining the loudest, although often with the backing of the larger firms, to the US government.¹³

The answer to these pleas was an agreement on the part of the Reagan Administration to investigate charges of government 'targeting' of the semiconductor industry in Japan, a vague claim made by the Semiconductor Industry Association which seems basically to boil down to a charge that government policies which have promoted the growth of the industry constitute a rough equivalent to the erection of trade-distorting subsidies and non-tariff barriers to US imports.¹⁴ In addition to investigating these charges, the Reagan Administration pushed enthusiastically a programme designed during the Carter Administration to give a boost to domestic electronics firms by means of defence R&D and procurement policies (the VHSIC, or very high speed integrated circuits, programme). Several hundred million dollars were spread around to various firms in support of the development of high speed circuits and the technology for producing them. The production technology for high speed circuits just happens to be quite similar to that which will be needed in the next round of competition with Japanese firms. Similarly, although the Defense Department would rather purchase circuits which can survive nuclear attacks, it is allowing firms to go for speedier circuits first, hoping that they will get around to radiation-proof circuitry later on.¹⁵

The Japanese have every right to feel put out by this seemingly contradictory approach: on the one hand, the US government is asking the Japanese government to stop supporting its electronic firms, while at the same time it is starting up its own version of targeting. Nevertheless the United States seems to have ample grounds for pushing for greater progress in opening the Japanese markets to US products. Two major avenues are likely to be pursued: greater access to the Japanese market via direct investment in production facilities there and the opening up of major government or quasi-governmental purchasing to bids from US firms. There is an explicit agreement between the US and Japanese governments in the case of Nippon Telegraph and Telephone (NTT), the Japanese telecommunications monopoly. However enforcement of this agreement continues to bedevil relations between the two countries.¹⁶

The Europeans are just beginning to enter this area. An interesting case in point is the diversion of Japanese video-recorders in the summer of 1982 to a customs clearance office in Poitiers (a small town in the centre of France with a very small customs office, known

historically as the place where Charles Martel stopped the advance of the Moors into France). Heavy symbolism aside, the importance of Japanese video-recorders for the French government rests on the weakness of the French electronics industry. Its main hope for the future, Thomson-Brandt, is primarily a producer of consumer and military electronics. The French computer industry is so weak that, without the consumer electronics wing of Thomson, there would be no possibility of generating enough domestic demand for semiconductors to support a 'leading-edge' firm. Thus the video-recorders become a crucial part of French strategy for catching up with the United States and Japan.¹⁷

Many Europeans doubt whether this sort of nationally based strategy will do any good. Previous national attempts to establish internationally competitive computer industries were dogged by failure (examples include Honeywell-Bull and CII in France, Siemens in Germany, and ICL in Britain).¹⁸ The European Community has put forth a programme, ESPRIT, to encourage joint ventures among European firms to develop new technologies which will enable them to compete on a more equal footing in the future. This is still a very small effort, and it is likely that European firms will continue to rely primarily on the strategy of allying themselves with stronger US or Japanese firms to survive the next few years.¹⁹ Nevertheless it demonstrates the importance which both national governments and the EC attribute to the development of internationally competitive, indigenously controlled electronics industries.

CONCLUSIONS FROM THE CASES

The protectionist pressures created by increased levels of competition in the four industry cases discussed above have somewhat different sources. In the case of textiles, the general problem was the inability of the higher-wage countries to cope with the competition from lower-wage countries, since labour costs are a major component of total production costs. Only where luxury products or products capable of being made with very advanced machinery were involved was it possible for the higher-wage countries to maintain market shares. The attempts to ward off the displacement of textile workers and firms produced a byzantine set of bilateral and multilateral agreements which, in the end, merely delayed relocation of production to the lower-wage countries.

In the case of steel, the low-cost producers were in industrialised countries, that is, Japan and the Federal Republic of Germany. The firms of these two countries were quicker than those in other countries to adopt a new technology (in the 1950s) which reduced production costs dramatically. The protectionist policies (border measures by the United States, nationalisation of steel firms in Britain, France and Italy) adopted by the other industrial countries did not really address the central problem of differences in production costs. The end result has been the organisation of a global cartel of steel producers which discriminates against new firms being set up outside the industrialised world. While there has been some trend towards equalisation of production costs, there is sufficient remaining differentiation to maintain the current highly unsatisfactory *status quo*.

Automobiles and semiconductors may be more typical of the general tendency in industrial production than textiles and steel because of the greater role within these two industries of rapid technological change. Automobile product and production technologies changed more rapidly in Europe and Japan than in the United States. When the preferences of consumers in the US market began to approximate those of the other two regions after the Iranian oil embargo in 1978, the differences in product quality and production costs became more evident, and US firms and unions began to push for protection, and imports of small, fuel-efficient vehicles rose rapidly. That US firms still have not been able to match Japanese quality and production costs is evident from the continuing pressure for extensions of the VER with Japan. Developing countries are not hurt by these developments directly as they continue to provide inexpensive components and even entire vehicles for the highly internationalised global automobile industry. Developing countries that have benefited significantly from this trend are South Korea, Taiwan, Brazil and Mexico. Nevertheless the growing 'organisation' of the global car market is likely to make it more difficult for other developing countries to benefit from future growth in automobile markets.

Until very recently, pressures for protectionism have been much lower in the semiconductor industry than in any of the others, partly because it is, relatively, such a new industry but also because few major actors realised the centrality of this industry for general economic development or perceived the growing gap in the capabilities of the firms of the United States and Japan, on the one hand, and of Europe, on the other. The delayed realisation of this fact in Europe

has produced a spate of proposals for sheltering European firms from external competition. It is not clear whether these proposals will result in protectionist policies, since the European firms may prefer to align themselves with US or Japanese firms rather than with other European firms in dealing with their (in their minds temporary) technological backwardness.

The thing which binds all these cases together is the increased competitive presence of foreign firms in the domestic markets of industrial countries. The factor which differentiates them is the relative importance of technological change and the location of the low- and high-cost producers. While the European countries and Japan have lived with the problems of intense foreign competition and rapid industrial change in the past, many US industries have been relatively immune from this until quite recently. The size of the US market, high transportation costs, the dynamism of US firms, along with a variety of other factors, tended to insulate the US economy against this sort of competition. Lower transportation costs, bad choices by US firms in products and technology, and the general increase in global economic interdependence have broken the pattern of the past. It has not been an easy transition.

Since the United States played such an important role in setting up the international economic regimes of the post-Second World War era, and since it continues to play a central role in the preservation of those regimes, its reaction to its new position in the world economy is a crucial determinant of their continued stability. Similarly the reaction of Japan and the major trading nations of Europe to the general growth in interpenetration of economies will be important because they have come to play a more significant role as well. If the stability of regimes depends on uniformity, or a trend towards uniformity, in reactions to change, as seems likely, then it is probable that the liberal trade and investment regime is going to be in serious danger of deteriorating in the next decade.

DIFFERENT REACTIONS OF THE INDUSTRIALISED COUNTRIES

There is an institutional change problem associated with the response of the industrialised capitalist countries to the challenges posed by the increased openness of the world economy. Some countries, like Japan, seem to have adapted quickly to changes because of the high

degree of centralisation in decision making in matters dealing with the promotion of competitiveness in business. Japan has a tradition of excellence in bureaucracy, and at least five decades of experience with promoting industrial change through the Ministry of International Trade and Industry (MITI) (and its institutional predecessors). It has relatively lax anti-trust regulations and enforcement procedures, while it promotes domestic competition in other ways which do not necessarily create an adversarial relationship between business and government (for example, through the use of subsidised credit or tax incentives). The industrial unions in Japan are quite weak; many firms have only company-specific unions. This institutional structure, inherited from the past and relatively stable since the US occupation, enables the government to do many things which are not possible for, say, the US government.²⁰

The growing perception of institutional advantages in certain countries tends to produce pressures for reforms which might lead to a greater convergence of institutions. For example, in the United States there has been an effort to combine the Department of Commerce with the US Trade Representative's office. The result would be a Department of International Trade and Industry which, theoretically, would be able to do many of the things which Japan's MITI does. Similarly the German Ministry of Research and Development was recently upgraded to deal with more general problems of industrial promotion. The Mitterrand government in France has added R&D responsibilities to the Ministry of Industry.

Another area of possible convergence is in anti-trust and competition policies. The Reagan Administration made a variety of proposals for reducing the penalties for anti-trust violations, decreasing the powers of the Federal Trade Commission, and making it easier for firms to create joint research or marketing ventures.²¹ The handling of the IBM and AT&T cases by the Reagan Administration was a clear signal to US business that the stress would be on keeping together units which have managed to remain competitive internationally, even if these units command a high domestic market share. The Europeans, for the most part, have never had strong anti-trust laws. While there is growing concern in some countries (especially France) that the giant corporations promoted by previous governments have not performed well, the main response seems to be to create new institutions to promote start-ups of small and medium-sized firms rather than efforts to break up existing giants.²²

Finally, a number of countries have adopted new ways of arriving at some sort of consensus among government, business and labour representatives through corporatist mechanisms. The Japanese do this through the meetings held by MITI which result in MITI's 'visions' documents.²³ The French have their indicative planning techniques, as well as sector-specific councils organised by the Ministry of Industry and Research.²⁴ The British use the National Economic Development Office (NEDO) and the various sectoral working groups within NEDO or the Ministry of Industry to engage in sector-specific concertation and consensus-building.²⁵ In the United States, this sort of thing has been somewhat more controversial, but there are quite good examples of *ad hoc* concertation in the case of the Chrysler Loan Guarantee Board, the Tripartite Steel Committee, and the industrial sector advisory committees (ISACs) set up by the Trade Representative's office to co-ordinate US policy for multilateral trade negotiations.²⁶

While it may appear, from this brief summary, that further moves towards convergence are likely, that conclusion is not in order. First, it is not at all clear that efforts to centralise authority for trade and industry, relax anti-trust enforcement, and institutionalise sectoral if not national concertation will succeed in key countries such as the United States. In fact present indications are to the contrary. Similar statements could be made about the United Kingdom, and the current disenchantment in France with the performance of its highly centralised industrial promotion activities suggests a move away from that model. Each country, in other words, seems to be locked into dissimilar institutional patterns which will not change quickly or easily, despite the pressure for some convergence.

Why is this so? The best explanation refers to the relationship between political institutions and social coalitions.²⁷ One starts with the proposition that political institutions are a product of negotiated agreements among social groups. Political institutions in industrialised capitalist countries are almost without exception associated with enabling legislation. The legislative (and more broadly, the legal) framework in which institutions must work evolves slowly, partly as a result of shifts in the power of social groups and partly as a result of the process of internal rationalisation which goes on in all adjudicated normative systems.

ANTI-TRUST IN THE UNITED STATES

Take the example of laws governing anti-trust and competition policy. These had their origins in the United States during a period of general societal dissatisfaction with the economic performance and potential political power of giant trusts. The Sherman Anti-Trust Act of 1890 and the Clayton Act of 1914 established the legal basis for government intervention to promote competitive markets. The original legislative mandate was somewhat vague as to how the government was to do this. Anti-trust law was given more bite in the 1920s and 1930s with the passage of the Federal Trade Commission Act (1920) and the Robinson-Patman Act (1938). The first created a new body, the FTC, with new powers to supplement the Anti-Trust Division of the Department of Justice. The FTC, unlike Justice, had the power to initiate legal actions against offending firms. The Robinson-Patman Act broadened the definition of anti-competitive behaviour to include a variety of price-fixing and price-discriminating activities. This new system was possible partly because of the unusually high level of labour militancy in the 1930s and the relative weakness of the anti-labour wing of the business sector in the New Deal coalition. From the 1930s to the late 1970s, the anti-trust rules gradually got a little stricter as the Federal Trade Commission expanded its operations, while the Justice Department refined its methods for dealing with anti-competitive practices. Towards the end of the 1970s, these regulatory bodies were heading toward rules which, in effect, identified anti-competitive practices with control over large shares of the domestic market. Recent attempts to modify the anti-trust laws are coming from two directions: (1) businesses which have always opposed government regulation of competition, and (2) businesses which believe they are particularly handicapped in international competition by the need to avoid anti-trust suits (and especially firms with a large share of the domestic market).²⁸

There is virtually no support within organised labour, however, for a relaxation of anti-trust laws. Labour, while growing weaker relative to its previous position in US politics, is joined by organised consumer interests and those business interests which would be adversely affected by monopolistic or oligopolistic pricing made possible by relaxation of anti-trust. The stickiness in this case, therefore, derives from the relative stability of the distribution of power among social groups in the US political system.

CENTRALISATION IN JAPAN

A similar argument can be made for the stickiness of the Japanese system. It is not likely that the Japanese will soon abandon their relatively centralised institutions for decision making in industrial policy, nor will they quickly adopt much stronger anti-trust rules or reduce barriers to foreign investment and foreign exports. The centralisation of decision making is made possible by the traditional strength of the bureaucracy in Japan. The use of the bureaucracy by the Shogunate and the Emperor as the means of disarming the opposition of the *samurai* (warrior) class required giving the bureaucracy major responsibilities in the implementation of policy. In addition, the desire of the Tokugawas to speed up the pace of industrialisation meant reinforcing the powers of the state in the presence of a relatively weak industrial managerial elite. The association of the aristocratic families with the larger industrial combines (*zaibatsu*) of the late nineteenth and early twentieth centuries gave the military governments of the 1920s and 1930s numerous incentives to undermine the power of the *zaibatsu* by supporting 'new' *zaibatsu*, who owed their good fortune mainly to the sponsorship of the militarised state. The promotion of industry by the state thus became a central means for the state to maintain its position within society by creating allies in the business sector. But the new *zaibatsu* could come to rival the old *zaibatsu* in economic strength only in a highly militarised environment.

The defeat of Japan in the Second World War introduced an external factor into the evolution of the state-society relationship. The American occupation authorities attempted explicitly to break up the old 'trusts' (that is, *zaibatsu*) and to introduce American-style political institutions. While the Japanese went along with these proposed changes superficially, they maintained the centralised power of the bureaucracy in the setting of industrial policy. The net effect of the occupation, therefore, was to weaken the traditional industrial groups, to leave the state more or less as it stood before the war, and, through US sponsorship of the Liberal Democratic Party as the party most likely to support US views, created the basis for a political coalition between the state, the more dynamic portions of the business sector and traditional service sector and agricultural groups. This coalition has been rather stable. The main source of change is the increase in the economic strength and political power of the internationally competitive portions of the business community and

their growing dissatisfaction with the restrictive side of business regulation by the Japanese state. Thus we see only recently some attempts to establish an anti-trust regime in Japan (in the form of the Japanese Fair Trade Commission) and to weaken the powers of super-bureaucracies like MITI.²⁹

THE FEDERAL REPUBLIC OF GERMANY: AVOIDING STRUKTURPOLITIK

In Germany the occupation also introduced an external factor, but more important, perhaps, was the initial delegitimation of the national socialists and their allies and the return of the social democrats to a role in national politics. In economic terms, the coalition between agrarian conservatives, industrialists and the state was disrupted by the partition of Germany, and the state increasingly became a mediator, in explicit tripartite negotiations at the federal level, between labour and industrial business interests. The resulting *Soziale Marktwirtschaft* combined international liberal foreign economic policies with special sector-specific arrangements to limit the vulnerability of specific sectors (railroads, coal, steel and so on) to external competition and set the pattern for state sponsorship of industries. This particular coalition did not support extensive centralisation of state power in industrial policy areas, nor did it grant authority to the state to enforce strict anti-trust rules. Much of the power for pursuing industrial policy was delegated to the regional (*Länder*) governments. Only when industrial policies at the regional level failed did the federal government get involved. Even then, the federal government acted in concert with the major banks, the firms and the unions to arrange a solution to the conjunctural problems.³⁰

The debate over *strukturpolitik* was further evidence of the stickiness of state-society relationships in the Federal Republic. The debate only reached national proportions in 1977 when one of the leaders of the Social Democratic Party (Wolfgang Roth) was appointed to head a committee to examine the advantages and disadvantages of pursuing more explicit and centrally controlled industrial promotion policies. These reforms were strongly opposed by the Ministries of Finance and Economics, representing partly their own bureaucratic interests, but more importantly those of the financial and large manufacturing enterprises which were their major constituencies. Not only was *strukturpolitik* blocked at this time but, at the

end of the Schmidt Administration, the Minister of the Economy, Count Otto von Lambsdorff, suggested a variety of measures for dismantling existing subsidy and industrial promotion mechanisms.³¹ Thus, even though the Ministry of Research and Development was granted new powers to deal with a perceived lag in adjustment to new technologies in German industry, the federal authorities continued to remain without an institutional structure for pursuing a federal industrial policy.

CENTRALISATION IN FRANCE

The Gaullist and centrist era in France was one of co-operation between the state and large enterprises to create internationally competitive firms on the basis of a relatively sheltered domestic economy and a highly politicised foreign trade. Labour was excluded for the most part from the 1960s until the election of Mitterrand. The Trésor and the Ministry of Industry had extensive powers to allocate credits and credit subsidies among industries and even specific firms, and thus were able to speed the transition out of agricultural production and into manufacturing that characterised the French economy in the 1960s and 1970s. France became a force to be reckoned with in global markets for aircraft, automobiles, telecommunications and armaments.³²

It was possible for the French government to engage in such an ambitious industrial policy because of the inherited strength of the French bureaucracy.³³ Just as in Japan, the bureaucracy had been strengthened by the monarchy as a way of countering or controlling the power of the aristocracy. A strong bureaucracy preceded the formation of powerful business interests. Many firms perceived themselves as highly dependent on the policies of the state for their survival, especially given France's relatively backward industrial status prior to the 1960s.

Some social groups remained relatively independent from the state, however, most notably organised labour and the producers of mass consumer durables (like the automotive firms). Thus the state did not always win its battles, and the institutional structure established by the Gaullists and centrists was vulnerable to a change in the electoral fortunes of the parties in their coalitions. A growing perception of the precariousness of France's position in the world economy, given its specialisation in aircraft, cars, telecommunications and

armaments – and the growing problems of traditional industries such as steel and textiles – helped to create greater support for the socialists and communists.³⁴

The election of Mitterrand had an impact on French industrial policies, although this impact was probably more incremental than revolutionary. The Mitterrand government increased state ownership of domestic banking assets, nationalised a number of large firms in electronics, consumer goods, armaments and other key industries, and adopted a series of new measures favouring the interests of workers. It maintained, however, the role of the Trésor and the Ministry of Industry (renamed the Ministry of Industry and Research in 1981) in setting industrial policy at the national level. It also maintained the indicative planning mechanisms (initially established by socialist governments after the Second World War to defuse intensely strong anti-business sentiments of the left toward ‘collaborators’ in the business world). Mitterrand’s first Minister of Industry and Research, Jean Pierre Chevènement, was rebuked after allegedly trying to make decisions that were supposed to be made by the directors of state-owned enterprises and for pushing protectionism in disputes with Japan and other trading partners.³⁵ The initiative for economic and industrial policy passed to the Minister of Economics, Jacques Delors, and Chevènement was replaced by a less ambitious industrial policy-maker, Laurent Fabius. Some socialists, obviously, had not reckoned on the stickiness of French political institutions.

DECENTRALISED STATISM IN THE UNITED KINGDOM

British industrial policy seems to change every time Labour replaces the Conservatives and vice versa, but in fact there has been some continuity in the institutional infrastructure. The Thatcher government comes out looking like the most radical of all recent British governments with respect to altering industrial policy instruments. Its sale of the state-owned enterprises associated with the dissolved National Enterprise Board and its attacks on the National Economic Development Office (NEDO) and the Central Policy Review Staff suggest a certain hostility to centralised industrial policy making. In fact this hostility, except at the rhetorical level, is far from established.

Consider the British government’s strong backing of the semiconductor and computer industries, its continued participation with France and Germany in the Airbus enterprise, its continued subsidies

to British Leyland and British Steel, and its use of the sector working parties of NEDO as a way of getting information about labour views in specific sectors. The British government was never able, even under Labour, to centralise industrial policy decision making in a global fashion. The highly decentralised bureaucracy (not unlike that in the United States) has remained weak relative to the bureaucracies of Japan and France, and perhaps weak even in comparison to the bureaucracies of the Federal Republic of Germany. The weakness of the British bureaucracy may be attributable to the political strength of the City of London and its business allies. It is probably also partly attributable to the militancy and distrust of centralised control on the part of organised labour. In any case, the UK, like the US, seems to lack the institutional infrastructure to pursue an ambitious industrial policy of the sort which is available to both France and Japan.³⁶ The Germans let the banks and the regional governments do it. Until they fail.

INCREASED QUESTIONING OF THE RULES OF THE GAME

These highly varying approaches to making and implementing industrial policies in the largest capitalist industrialised countries militate against the acceptance of a common set of rules governing trade and the promotion of industries. Thus it is highly unlikely that the international regimes governing trade and industrial promotion will be stable and effective in reducing the intensity of trade conflicts among the major industrial countries. Countries which avoid explicit centralised industrial policy making (and which therefore tend to rely on tariff and non-tariff barriers to protect vulnerable industries) favour the elimination of subsidies and of ‘targeting’ on the part of countries which do have such policy-making machinery. Since the removal of targeting is as difficult for countries that do it as starting it is for the countries that do not, the predictable result is that there is a growing tendency for countries to respond to so-called ‘temporary’ trade barriers either by challenging them in the GATT or by erecting their own barriers in retaliation. It is too soon in this game to be able to report hard statistics. The record of the 1970s was one of general decline in the level of trade barriers. But there is reason to believe that this decline has been halted and perhaps reversed by events in the early 1980s.

Controversy over the international trade regime is compounded by

disagreements over the international monetary system. Fluctuating exchange rates have a direct and immediate effect on the competitiveness of exports. Uncertainty created by fluctuating exchange rates makes it more difficult for firms to adopt rational pricing strategies and to plan their international investments. Thus the result may be a decline in overall flows of trade and capital. The flow of fungible capital into countries with increasing rates of exchange (usually a function of high domestic interest rates relative to that of other countries) has the effect, when the country with high interest rates is a large one like the United States, either of reducing the availability of capital in countries with lower interest rates or of forcing them to match those rates and thus slow down their rate of growth. This has led certain countries, notably France, to question the rules of the international monetary system and to suggest a new Bretton Woods meeting to examine the options for new rules.³⁷ The fact that both the trade and the monetary regimes are under fire simultaneously heightens the sense of crisis and urgency in the international economic system. This sense of crisis is only partially a result of the current and possibly reversible downturn in world economic growth. A large part of the problem is the decline in the relative economic power of the United States and the rise in strength of the Japanese and European economies.

IMPLICATIONS FOR THE THIRD WORLD

The third world depends on the international economic system directly in that growth in the South is constrained by the rate of growth of the North. Exporters of commodities and raw materials are adversely affected by declines in global demand which occur during recessions in the North. Exporters of manufactured goods are hurt by the barriers to trade which are erected during trade conflicts among the industrialised countries. Since not all developing countries are exporters of both raw materials or commodities and manufactured goods, it will be necessary to discuss the implications of the current crisis in the international economic system separately for three groups of countries: the NICs (newly industrialising countries), the less industrialised oil-exporting countries, and the fourth world (all the other developing countries).

The NICs are highly dependent on exports of manufactured goods to the North. This is especially true of the South-east Asian NICs

(Korea, Taiwan, Hong Kong and Singapore), but also of the Latin Americans (Mexico and Brazil). To date, the main threat of NIC manufacturers *vis-à-vis* those in the industrialised countries has been in shoes, textiles and small appliances. The strategy of the South-east Asian NICs has been strongly reliant on growth in exports of labour-intensive products to Northern countries. The Latin American NICs have adopted strategies of expansion of domestic economies, using imported capital and exports as a way of getting around domestic bottlenecks. The Latin American NICs have been attempting to diversify their industrial base and to export both capital-intensive and labour-intensive goods. They tend to export labour-intensive goods to the North and capital-intensive goods to the South. A revival of growth in the North helps all the NICs to the extent that it increases demand for their labour-intensive exports. But the key to the future of the NICs is demand for their capital-intensive products.³⁸

The NICs have also been the most important recipients of capital flows from the North. Both in direct foreign investment and in flows of loan capital from financial institutions, the NICs account for the majority of total flows to the third world. Short-term debt repayment difficulties have forced a number of countries to re-finance and reschedule their loan payments (see Table 5.6). Most notable among the NICs with debt problems are Brazil and Mexico (the Asian NICs seem to have responded much more rapidly to the global economic downturn and have so far avoided major debt crises).³⁹ The total 'net liability' of Brazil at the end of 1982 was close to 52 billion dollars; that of Mexico was 48 billion.⁴⁰ Korea's debt to foreign banks in 1982 was around 20 billion, while that of Taiwan was only 6-7 billion.⁴¹ In order to make their rescheduled debt payments, both Brazil and Mexico will have to be able to count on continued access to the markets of the North. They must also continue to receive new loans from the North. The austerity programmes which have been adopted at the behest of the IMF in order to qualify for these new loans are likely to create a political climate hostile to the continuation of the development strategies of the past. This means that a tightrope will have to be walked in dealing with Brazil and Mexico. The North has to pay close attention to the way its internal squabbles affect the fortunes of these two countries, or else they risk contributing to the delegitimation of regimes which have been held up by the North as examples of the positive consequences for the developing world of associating closely with the international capitalist economic system.

The less industrialised oil exporters are primarily affected by the

Table 5.6 Foreign bank debt of developing countries (billions US dollars), numbers of countries undergoing debt renegotiations, and amount involved (millions dollars) 1975-82

Year	Bank debt	No. of renegotiations	Amount involved
1975	62.7	2	372
1976	80.9	3	1 796
1977	94.3	2	237
1978	131.3	4	2 953
1979	171.0	7	5 434
1980	210.2	7	3 954
1981	253.5	11	1 935
1982	268.3	12	9 987

Sources: For bank debt, Paul Volcker, 'How Serious is U.S. Bank Exposure?', *Challenge*, 26 (May/June 1983) p. 14; for renegotiations and amount, World Bank, *World Development Report 1983* (New York: Oxford University Press, 1983) p. 23.

global recession and are less affected than the NICs by the increased competition among the industrialised countries. The global recession has meant declining petroleum revenues. To the extent that oil exporters have used these revenues to finance ambitious internal development projects, the decline has forced them to revise their plans, to cut back on projects. Most of the less industrialised oil exporters are aware that their petroleum resources are limited and are therefore eager to diversify their economic base for the future. Their ambitions, if not their performances, are similar to those of the NICs. Because they tend to have higher domestic wages than the export-oriented NICs, they must try to compensate for this disadvantage by importing technology which allows them to be cost competitive. Thus the less industrialised oil exporters have moved towards a higher degree of industrialisation by using their petroleum revenues and their good credit ratings on international financial markets to borrow. That this is a problematic strategy can be seen in the generally lower rates of growth among the OPEC countries since 1978 as compared with that of the NICs (see Table 5.7). To the extent that oil exporters (mainly Algeria, Venezuela, Nigeria, Indonesia, and Ecuador) have borrowed to supplement their revenues, they are also dependent on the openness of Northern markets for paying back those loans in the future.⁴²

The fourth world has clearly suffered the most from the global

Table 5.7 Average annual percentage growth of GDP for specific groups of countries

	1960-73	1973-9	1980	1981	1982
All developing	6.0	5.1	3.0	2.0	1.9
Low-income	4.5	5.1	6.1	3.7	3.7
Middle-income					
oil importing	6.3	5.5	4.2	1.1	1.1
Middle-income					
oil exporting	7.0	4.8	-1.3	1.5	1.9

Source: World Bank, *World Development Report 1983* (New York: Oxford University Press, 1983) p. 7.

recession of the past few years. The rate of growth of the fourth world, and especially the poorest parts of it, lagged behind that of both the industrialised and the other developing countries until 1978. Since 1978, it has grown somewhat faster than the more industrialised countries. Those countries fortunate enough to have raw materials and commodities to export to the North have suffered from declining prices. Countries which had finally gained access to international capital markets, thanks to the glut of loan capital following the first oil price increase and the recession of 1974-5, are now more threatened by the timidity of bankers to make new loans than are the big borrowers among the NICs and the oil-exporting countries.⁴³ In a way their poverty also insulates them somewhat from the vicissitudes of the international economy. If the global economy recovers, the prices of commodities and raw materials will also recover. Recovery may make it easier to obtain grants and foreign aid from the North (but not if a conservative government remains in power in the United States). These countries are less threatening to the industrialised world because they have no current capability to compete with them. The political incentives to help them, so as to create allies in the third world or to counter the influence of the socialist bloc, will in many cases help to overcome domestic resistance in the North to increasing aid. A good example of this is the Caribbean Basin Initiative of the Reagan Administration (which, of course, has other motivations as well).⁴⁴

In sum, the effect of increasing competition among the industrialised countries on the third world depends on two factors: (1) the degree to which that competition is likely to close major Northern markets for manufactured goods (especially relevant for the NICs

and the industrialising oil exporters) and (2) the extent to which the increased questioning of the economic rules of the game in general may impede recovery in the North (and therefore in the global economy). Things could not get too much worse for the fourth world. Things appear likely to get worse for the rest of the third world. Thus the increased competition among the industrialised countries seems likely to have the main overall effect of freezing the world at its current level of hierarchy and inequality.

Notes

1. On the general increase in trade and interdependence, see Centre d'Etudes Prospectives et d'Informations Internationales (CEPII), *Economie Mondiale: La Montée des Tensions* (Paris: Economica, 1983); French Institute for International Relations, *RAMSES: The State of the World Economy* (Cambridge, Mass.: Ballinger, 1982). Literature on specific countries will be cited below.
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3. Details on the experiences and views of specific countries will be given later in the text.
4. Robert Gilpin, *US Power and the Multinational Corporation* (New York: Basic Books, 1975).
5. The author is developing this argument further in a forthcoming book tentatively titled *Atlantic Riptides*.
6. Stephan Haggard and Vinod Aggarwal, 'The Politics of Protection in the U.S. Textile and Apparel Industries', in John Zysman and Laura Tyson (eds), *American Industry in International Competition* (Ithaca, NY: Cornell University Press, 1983). See also, David Yoffie, *Power and Protection* (New York: Columbia University Press, 1983).
7. Leonard Lynn, *How Japan Innovates: A Comparison with the United States in the Case of Oxygen Steelmaking* (Boulder, CO: Westview, 1982).
8. Hans Van der Ven, 'The Politics of Trans-Atlantic Steel Trade', unpublished manuscript, Harvard Business School, May 1983.
9. *Ibid.*, viii-13.
10. Commission of the European Communities, *General Objectives Steel 1985*, SEC(82) 1564 (Brussels: 28 October 1982).
11. James P. Womack, *Public Policy for a Mature Industrial Sector*, PhD dissertation, MIT, September 1982; Gilbert Winham, *The Automobile Trade Crisis of 1980* (Halifax, NS: Centre for Foreign Policy Studies, Dalhousie University, 1981).
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13. Michael Borrus, James Millstein and John Zysman, *International Competition in Advanced Industrial Sectors: Trade and Development in the Semiconductor Industry* (Washington, DC: Joint Economic Committee of Congress, 1982).
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15. Glenn R. Fong, 'Project Update: American, Japanese, and European Industrial Policies in Microelectronics: A Preliminary Report of the US Experience in the Very High Speed Integrated Circuit Program', Harvard Business School, February 1983.
16. Urban C. Lehner, 'US-Japan Phone Gear Pact Totters', *Wall Street Journal*, 27 July 1983, p. 24.
17. *Les Nouveaux Produits de l'Electronique Grand Public* (Paris: Documentation Française, 1978); 'Europe gangs up on Japanese electronics', *Business Week*, 21 March 1983.
18. Jacques Jublin and Jean-Michel Quatrepoint, *French Ordinateurs: de l'affaire Bull à l'assassinat du Plan* (Paris: Alain Moreau, 1976).
19. Giovanni Dosi, *Technical Change and Survival: Europe's Semiconductor Industry* (Brighton, UK: Sussex European Research Centre, 1981).
20. Ira C. Magaziner and Thomas M. Hout, *Japanese Industrial Policy* (London: Policy Studies Institute, 1980); Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford: Stanford University Press, 1982).
21. *Business Week*, 7 March 1983, p. 119; Robert E. Taylor, 'Reagan to Seek Cut in Damages for Trust Suits', *Wall Street Journal*, 29 March 1983, p. 3.
22. Frédéric Jenny, 'La politique industrielle de la France', paper delivered at a conference on industrial policy and structural adjustments at Isveimer, Naples, 21-2 April 1983; Andrew Black, 'The Industrial Policy of the Federal Republic of Germany', same conference; Alfredo del Monte, 'La politica industriale in Italia', same conference.
23. An example is MITI, *Vision of Industry in the Eighties* (Tokyo: March 1980).
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25. See the annual reports of the National Economic Development Council.
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6 The Welfare State and Export Optimism

Douglas R. Nelson

With the apparent failure of import substituting industrialisation strategies in the early 1960s, developing countries increasingly turned to more outward-oriented strategies – a tendency which has been strongly encouraged by the major international aid donors. The success of such a strategy is predicated on the notion of trade as an engine, or at least a handmaiden, of growth. The purpose of this chapter is to examine the 'demand-side' viability of such a strategy. That is to say, this chapter questions neither the effect of a successful export orientation on long-run economic growth¹ nor its effect on domestic political stability,² rather it examines the prospects for successful export orientation. This examination is developed in two sections: the first attempts to determine the openness of the international economy, as currently constituted, by reviewing the postwar export performance of the developing countries; the second looks at the political-economic foundation of the international trading system and the prospects for its continued stability. A final section discusses strategies implied by the preceding analysis.

I LDC EXPORT PERFORMANCE UNDER THE LIEO

Recent research on the structure of international regimes (Krasner, 1984) reminds us that the economic relations of nations are embedded in a political framework which, along with the material forces central to the economic analysis, generate systematic patterns of international economic relations (for example, trade, finance, foreign direct investment). Thus a useful piece of evidence relating to the future export performance of the LDCs would be their past performance under the conditions of the 'liberal international economic order' (LIEO) which emerged following the Great Depression and the Second World War.

Table 6.1 summarises the overall export performance by major