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Survival and Change in the Global Marketplace

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Rival Capitalists: International Competitiveness in the United States, Japan and Western Europe. By Jeffrey A. Hart. Ithaca: Cornell University Press, 1992. 328 p. $39.95 hardcover; $16.95 paperback.

Beyond Free Trade: Firms, Governments, and Global Competition. Edited by David Yoffie. Boston: Harvard Business School Press, 1993. 454 pp. $39.95 hardcover.

These two books reflect a growing interest among international political economists regarding the roles played by industries, individual firms, and national governments in the dynamics of global competition (see also Katzenstein, 1985; Zysman and Tyson, 1983; Gourevitch, 1986; Deyo, 1987; and Reich, 1991). They also reflect a growing recognition that to understand the behavior of the firm in the international competitive environment we must also understand the political and economic context—especially the state-societal relationships—within which the firm is imbedded.

In its examination of the impact of state institutions and societal arrangements on patterns of economic growth and change, *Rival Capitalists* builds on the tradition of comparative political analysis. While *Beyond Free Trade* has relevance to this tradition, it takes a solidly economic approach based on international trade theory. It focuses on the broader global and structural character of individual industrial and service sectors and how that character determines whether classical explanations of comparative advantage, competitive advantage, firm alliances, or state intervention best explain observed patterns in trade and market share. Both books set forth theoretical frameworks that take into account global market circumstances and individual industrial capabilities, while noting that key actors—national governments as well as large firms—can manipulate the terms of competition and trade for their particular benefit.

Each of these books consists primarily of very dense historical case studies of industrial and governmental responses to international competitive challenges. They are well-suited for scholars but are likely to pose a sizable challenge to more casual readers and students of political economy. While both books target a fairly sophisticated audience, *Beyond Free Trade* offers the reader a clearer understanding of international competition, trade and investment patterns, and the policies and decisions that produce them. The thematic approach and theoretical questions are introduced very well and adhered to carefully throughout the explorations of particular cases. Each chapter orients the reader to the evolution of market competition and technology in that sector before delving deeper into the intricacies of the case at hand. Thus a strong appreciation of the historical background buttresses our understanding of more recent developments. As in *Rival Capitalists,* the cases presented are sometimes very complex, yet the authors include excellent graphic material and well-constructed explanations which make the information more accessible, even for someone not familiar with the particular industries or technologies discussed.

The nationalistic approach in *Rival Capitalists* examines the competitive capability of industries in three different sectors across five advanced industrial nations. Selecting industrial sectors which have over time undergone significant technological change and fierce international competition—steel, automobiles, and semiconductors—Hart maintains that the ability of individual firms and manufacturing associations to anticipate technological requirements and respond to technological innovations and competitive challenges is key to their ability to maintain market shares. His premise is that state-societal relations within each nation shape industrial competitiveness, arguing that the arrangements in Germany and especially Japan have proven more conducive to technological innovation and diffusion, which are crucial to the ability of industry to adapt and compete, than have analogous arrangements in the United States and Britain. While France exhibits some of the needed elements for advancing key industrial interests, according to Hart's analysis, it rests somewhere between Germany and the United States because of its poorer performance in maintaining technological competitiveness.

According to Hart the generally liberal political economies of Britain and the United States and the particular patterns of government-labor-business relationships in each country create environments that are not well-suited to responding to technological advances and subsequent international competition. He asserts that hospitable foreign direct investment and anti-monopoly policies in both nations prevent governments from sheltering domestic firms from competition at times when they need to adjust to technological change and new market demands. Moreover, he indicts the emphasis on the defense sector in both countries for skewing technological development and limiting its diffusion to industry.

Hart maintains that countries such as Japan, Germany, and, to a lesser extent, France are at an advantage because they manage the foreign direct investment of competing firms by strategically negotiating their roles in terms of joint ventures, access to technology, and market niches. These countries create a successful balance between competition, which ensures incentives for innovation and adaptation, and practices that allow access to new technologies, so that the survival of domestic firms is not threatened.

Japan, which has adapted to competitive challenges most successfully in the three sectors, exhibits the "purest" form of strategic management via direct intervention by the Ministry of International Trade and Industry (MITI). MITI encourages very large flagship enterprises via restrictive licensing arrangements and subsidies for new technologies. Yet, Hart argues, even in Japan this is balanced by the Keiretsu system which maintains strong competitive forces domestically despite MITI's preference for dominant firms that have the resources to compete globally by forging strong links between major banks and numerous small producers. In addition, Japan's system of labor relations has facilitated the adoption of new technologies because workers have generally been assured of continuing benefits even when restructuring is necessary. Historically these factors have allowed industries in the three sectors studied to respond successfully to MITI's leadership and to changing competition from abroad.

While Hart's general premise is well-elaborated and persuasive, the chapter by chapter discussions of state responses to competition in the three sectors are somewhat lacking in consistency and explanatory detail. In particular, he fails to explain clearly *how* key technologies were produced and *how* they were diffused and adopted by the industries studied. Sometimes it appears that government intervention was crucial to encouraging the use of new technologies, while at other times the fact that the government stood back and allowed competitive forces to prevail seems key to their successful adoption. Japan's mixed experience in this regard is illustrative. Similarly, Hart does not explain why he considers one state's interventions to be *ad hoc* or ill-timed, as in Britain's encouragement of the creation of International Computers Limited in the late 1960s and France's industrial promotion policy after 1973, while he considers others to be anticipatory and appropriate. This confusion exists because Hart provides no systematic criteria by which to judge particular decisions or activities; it is compounded by the fact that the actual processes involved remain opaque. Thus, while the overall argument of the book is attractive, the supporting empirical evidence is imprecise, and causal links are poorly established.

Beyond Free Trade is an equally ambitious endeavor. Although it is an edited collection of essays, it also reflects an evident dedication by the authors to deal consistently with their subjects under a common overarching theoretical framework. This consistency establishes a very strong set of cases from which useful comparisons can be made. It also reinforces the reader's ability to follow the theoretical approach through the sometimes technical and complicated discussions.

The purpose of this book is to compare the applicability of three different approaches from economic trade theory that explain trade patterns and market share developments. Eight different industrial and service sectors are examined: semiconductors, computers, telecommunications, automobiles, bearings, construction equipment, minerals, and insurance. Because of this broader purpose, *Beyond Free Trade* focuses less on state-societal arrangements *per se* than does *Rival Capitalists.* Nevertheless it reinforces Jeffrey Hart's general conclusions that differences in state-societal arrangements do affect the ability of firms to compete in various sectors. Perhaps more significantly, *Beyond Free Trade* offers a more systematic explanation of the circumstances under which governmental interventions make a positive or negative difference. This is largely due to the fact that each case study examines the impact of five specified variables on the actual choices made and on the ability of various firms to compete. The five variables are: factor endowments, the firm's competitive advantage, governmental intervention, firm alliances, and idiosyncratic personal preferences.

Most of the cases reaffirm to some degree the usefulness of classical notions about comparative advantage, particularly in the start-up phase of an industry when issues such as access to resources, finance, labor supply and consumer market are particularly important. All of the cases, however, reveal, to varying degrees, the ability of firms to alter their competitive capability, and under certain circumstances to make choices and pursue strategies that significantly alter trade flows and market access. Moreover, the cases demonstrate the importance of government intervention as a variable in determining the ability of firms to compete. Whether they use trade protection (such as the tariffs and quotas typical of mineral trade in the past), or domestic regulatory regimes (such as those encountered by the telecommunications industry today), or activist trade bargaining (such as that evidenced by the United States in the semiconductor dispute), governments can effectively protect the interests of their industries and in so doing affect trade flows.

The case studies also reveal that the character of the global marketplace itself affects the rules of the game. If the global market is highly fragmented, the implications of governmental intervention are very different than if the global market is highly concentrated and oligopolistic. In fragmented markets, governmental policies aimed at fostering domestic competition may be appropriate. In concentrated markets, however, those same policies may hinder a manufacturer or service provider by reducing its financial resources for research and development, market penetration, or countercyclical discounting capability. Therefore, the cases tend to reinforce the conclusion of *Rival Capitalists* that U.S. based firms face diminished international competitiveness because of such things as U.S. anti-trust laws while Japanese, German, and French firms benefit from the favored status they receive under their national laws (as long as enough domestic competition exists to maintain incentives for innovation and efficiency at key developmental periods).

Additionally, *Beyond Free Trade* generally supports the infant industry argument, again as long as such a policy coincides with domestic rivalry within the sector. While neither book adequately addresses how the appropriate balance between weak antimonopoly laws and healthy domestic competition can be achieved, some clues can be found in the corporate-banking arrangements of Germany and Japan (*Rival Capitalists*) and in Brazilian and Mexican national investment policies (*Beyond Free Trade*).

These two books make a valuable contribution to our understanding of the interplay among competition, technology, governmental strategies, and firm behavior in the global marketplace. While *Beyond Free Trade* is the stronger, more systematic examination of these factors, both books are persuasive in their conclusions that international competitiveness is multidimensional, and that factors beyond simple comparative advantage work to shape trade and investment patterns. They also enhance our appreciation of the efficacy of managed trade under certain circumstances and thus raise serious policy questions about the appropriate role of government in matters of international trade, finance, and investment.

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