Lecture 6

National Development & International Competition
National Development & International Competition

I. • State & Development - West
II. State & Development - Asia
III. Trajectories & Change
IV. Competing by Technology
I. State & Development - West

A. United States

B. Germany

C. France
A. United States

1. American Liberalism & Federalism
2. 19th Century
3. 20th Century
The Liberal State?

- **Mythology of American Liberalism**
  - Minimal State
  - A nation of individuals
  - A nation of entrepreneurs
  - Hard work & success

- **Reality of American Liberalism**
  - State is ubiquitous
  - Individuals & immigration
  - Big Business
  - Public-private partnerships
The American System

- Federalist state
  - National, state & local

- 2- Party system
  - Stability & closure

- Politics of state & business
  - Growth machines
  - “All politics is local”

- Civil service & technical competence
A. United States

1. American Liberalism & Federalism
2. 19th Century
3. 20th Century
2. 19th Century U.S.

- Continental conquest
  - Revolution, Louisiana & Mexico
  - Army & native removal
- Privatizing a continent
  - Land survey & land office
- Railroads
  - Space & subsidy
- Manufacturing policy
  - Tariffs & armories
- Civil War & national reconstruction
- California & mining law
A. United States

1. American Liberalism & Federalism
2. 19th Century
3. 20th Century
3. 20th Century U.S.

- **Progressive era**
  - Expansion of local governments
  - Debt & infrastructure

- **New Deal**
  - Regulation, public works & jobs
  - Economic management

- **World War II & Cold War**
  - Massive war spending
  - WW2 controls
  - Cold War contracts & technology

- **States & local industry**
  - California & oil, electricity, internet sales, biotech, etc.
I. State & Development - West

A. United States

B. Germany

C. France
B. Germany

1. Playing Catch-Up
2. 19th Century
3. 20th Century
First to play catch-up

- Backward nations & strong states
  - Early weakness of industry

- Ill-Liberal Europe vs. Liberal Anglo-America
  - Dueling economic models
European Statism

- Strong central states
  - Weak local governments

- Large public sectors
  - High taxes, national infrastructure

- Professional bureaucracies
  - Faith in expertise of the state (Max Weber)

- Parliamentary democracy
  - Multiparty politics
  - Moderates statism
B. Germany

1. Playing Catch-Up
2. \( 19^{th} \) Century
3. \( 20^{th} \) Century
Pre-War Germany

- Strong state & Prussian-led unification
  - Military organization

- Bismarck & bureaucracy
  - Industrial policy
  - Universities & science

- Against free-trade
  - Frederick List, anti-Ricardo
B. Germany

1. Playing Catch-Up
2. 19th Century
3. 20th Century
Wartime Germany

- War policy & directed economy
- Nazi reconstruction & rearmament
  - Autobahns, VW
- Close alliance with big business
  - E.g., Krupp, Bayer, Siemens, etc.
Postwar Germany

- US occupation & reforms
  - More liberal

- Federalist state
  - Local aid to banks & industry

- National infrastructure
  - Rail, road, education
I. State & Development - West

A. United States
B. Germany
C. France
French Statism

- Napoleonic state
  - Legacy of Ancien Regime
  - Prefectures & local subordination

- National infrastructure
  - Rail, highway, ports electricity
  - High investment & state control

- Education & state elite
  - ENARClsts
  - Run most big companies
State & Industry

- State-owned companies
  - SNCF
  - Renault, Dassault, Pont- au-Mousson
  - Banks
  - In and out of state hands

- National champions
  - Sarkozy & the Tatas

- Industrial policy
  - Science cities
  - National retirement age
National Development & International Competition

I. State & Development-West
II. State & Development - Asia
III. Trajectories & Change
IV. Competing by Technology
I. State & Development - Asia

A. Japan
B. Korea & Taiwan
C. China
A. Japan

1. Pre-WWII
2. Post-WWII
State-Led Development

- Meiji & Modernization
  - Revolution from above

- Catch-up with US
  - Unity of state & national mission

- Dictatorship & war economy
  - After 1923

- Zaibatsu & big business alliance
A. Japan

1. Pre-WWII
2. Post-WWII
Post-War Government

- US occupation & reform
- One-party state (Liberal Democratic Party)
- State & small business
  - Protecting farmers & retailers
  - Accepting inefficiency
- Rural-urban alliance
  - Construction ‘mafia’ & infrastructure
  - Postal Savings Bank financing
Industrial Policy

- Key Ministries - small but excellent
  - MITI & industrial planning
  - MOF & financial policy
- Protection
  - Tariffs, quotas, capital controls, etc.
- Promotion
  - Building better industry
  - Performance-based incentives
Big Business Networks

- **Business groups (horizontal keiretsu)**
  - Industry-traders-banks
  - Linkages
    - Exchange
    - Finance
    - Management

- **Beyond Zaibatsu**
  - Six heirs (now four)
    - Mitsui, Sumitomo, etc.
  - New groups
    - Sony, Nissan, etc.
I. State & Development - Asia

A. Japan

B. • Korea & Taiwan

C. China
B. Taiwan & Korea

1. Japanese Influence
2. Taiwan’s Two-Tier Economy
3. Korea’s Revolution from Above
Japanese Colonial Legacy

- Japanese conquest – Taiwan, Korea & Manchuria
- Land reform & end of oligarchs
- Dictatorship & repression
- State-Led Development
‘East Asian Model’

- Developmental state
  - Ministries & business together
- Strong controls
  - Capital & labor
- Forcing productivity
  - Technology policy (see below)

- *Alice Amsden, The Rise of the Rest*
International Relations

- Cold War umbrella
  - U.S. military spending
  - “Export-led growth” model (to U.S)

- Ongoing ties to Japan
  - Japanese investment & capital goods
  - Technology transfer
B. Taiwan & Korea

1. Japanese Influence
2. •Taiwan’s Two-Tier Economy
3. Korea’s Revolution from Above
Taiwan politics

- Starting point
  - Invasion by Nationalists
  - Dictatorship of Chiang kai-shek
  - One-party state (KMT)

- Land reform
  - Distribution to soldiers
  - Lots of small property

- Democratic opening in 1980s
  - Now a 2-party state
Taiwan Economics

- State-owned heavy industry
  - Refineries, steel, ships, etc.

- Small-firm sector (dual economy)
  - Toys, clothes, shoes, etc.
  - Family businesses, social networks

- Technology push
  - Students to US
  - Hsinchu Science Park

- Push into China (Fujian)
  - 1980s-90s offshoring of production

Hsing, Making Capitalism in China: The Taiwan Connection
B. Taiwan & Korea

1. Japanese Influence
2. Taiwan’s Two-Tier Economy
3. Korea’s Revolution from Above
Korean state

- Dictatorial-military
  - Long fight for democracy (by 1990s)

- Developmental coup (1970s-80s)
  - Park Chung-hee regime

- State-Engineered Development
  - Strong direction
  - Helps create capitalists
Korean Industry

- Big business & government
  - Chaebol created by state
  - Big families & state

- State champions
  - Steel, ships, electronics
  - Incentives & targets (Japanese model)

- Labor repression
I. State & Development - Asia

A. Japan

B. Korea & Taiwan

C. China
C. China

1. Revolution in One State
2. Marketization
3. Profit & Competition
4. Wide-Open Spaces
Internal Revolution

- Deng shao-peng takes power

- Strong state
  - Controlled transition
  - Rules from the center

- Devolution of state
  - Expansion of local government
C. China

1. Revolution in One State
2. •Marketization
3. Profit & Competition
4. Wide-Open Spaces
Markets by Stages, 1980s

- Rural enterprise
  - Agriculture
    - HH responsibility system
  - State & village enterprises
    - SVEs by the millions
- Industrial experiments
  - Foreign K export zones
    - Mostly HK & Taiwan firms
C. China

1. Revolution in One State
2. Marketization
3. Profit & Competition
4. Wide-Open Spaces
Profit motives, 1990s

- Move to profit signals
  - Ending subsidies to State-Owned Enterprises (SOEs)
  - Banks still state-owned

- SOEs weeded out
  - Debt & bankruptcies
  - Booms & Recessions

- Double-digit growth

[Graph showing real GDP growth with data from IMF]
Growth of industry

- Domestic industry, 1980s-90s
  - Older products (e.g., bicycles, refrigerators)

- Foreign-owned industry, 1980-90s
  - New products (e.g., cars, shoes)

- New industry, 2000s
  - Tech goods (e.g., chips, computers)
C. China

1. Revolution in One State
2. Marketization
3. Profit & Competition
4. Wide-Open Spaces
New Economy of 2000s

- Export boom
  - New “Workshop of the World”

- Privatization
  - Selling shares in SOEs
  - New companies

- Liberalizing banks
  - Shares & privatization
Wide Open Economy

- Real Estate boom
  - And bubble?
- Domestic consumption
  - Urban consumers
- Opening the interior
  - Infrastructure
I. State & Development - West
II. State & Development - Asia
III. Trajectories & Change
IV. Competing by Technology
III. Trajectories & Change

A. National Capitalisms
B. Development Trajectories
C. Change & Renewal
Americanism = Capitalism?

- US unique & strange
- Rediscovery of difference in US
  - 1980s competition & crisis
National differences

- Nations compete from different bases
  - Or there would be no trade, no competition

- Economic performance differs
  - in growth, welfare, income, equality, etc.

- Economic orders differ
  - In terms of state regulation, labor relations, taxation, spending, etc.

How to compare countries?

- Capitalist commonalities
  - Markets, business, wage-labor, banks, etc.

- Crutch of ‘culture’
  - Do culture & religion matter?
    - Max Weber, *Protestantism & the Spirit of Capitalism*
    - What about Islam?
States & politics

- Centralized / Federal
  - Statist, Liberal

- Dictatorship / Democracy
  - Parliament / President

- Bureaucratic / Party
  - State ‘apparatus’
  - One, two or more parties
Economic Institutions

- Business organization
  - Firm size
  - Networks
- Labor relations
  - Unionization & wages
  - Legal rules
- Financial structure
  - Banks v K-markets
  - Ties to industry
Social orders

- Class order
  - Landlords & peasants
  - Capitalists
  - Small business & entrepreneurism
  - Managers & tech workers

- Racial order
  - Conquest & colony
  - Neo-colonial (criollo elites)

- Gender order
  - Degree of women’s liberation
III. Trajectories & Change

A. National Capitalisms

B. Development Trajectories

C. Change & Renewal
Starting points

- Antecedents
  - Kingdom, colony, feudalism, etc.

- Post position
  - Revolution, independence, unification, etc.

Development paths

- Building on the past
  - Success breeds success

- Inertia of history
  - Safety of status quo

- Difficulty of change
III. Trajectories & Change

A. National Capitalisms
B. Development Trajectories
C. Change & Renewal
But things do change...

- From within...
  - Civil war & coups
  - Reform movements
  - Rise of new industries

- From without...
  - Defeat & reconstruction
  - ‘Structural adjustment’
  - Common markets
The capitalist road

- Communist China, 1949-76
  - Social transformation
  - Economic foundation
    - (not a ‘maoist backwater’)

- Cultural Revolution, 1960s
  - Demise of Maoism, early 70s

- Deng Shaopeng
  - 1978 turning point
  - ‘Reform era’
Postwar Japan

**Restructured State**
- US occupation
  - De-militarization
- Political Reform
  - End of emperor & dictatorship
  - Liberal democracy
- No military

**Class reconfiguration**
- Purge of old business elite
- Rural land reform
- Defeat of unions
  - Company unions
Change & Stasis in Japan

- Stagnation of 1990s & 2000s
- Weakening of business networks
- Weakening of employment ties
- Growth of consumerism
- Defeat of LDP
But... change comes hard

- Attempts to reform LDP
  - Koizumi’s ‘reforms’
  - Abe collapse (2007)

- DJP going nowhere
  - Yukio Hatoyama resigns (2010)

- Internal market still too small
  - Small firms still inefficient
Declining position of US

- Massive trade deficit
  - Imports > exports

- We consume, but we don’t produce enough

- Rising indebtedness
  - International debt
Maybe Our Time is Up?

- American Daydream of last 30 years
  - Living in a fantasy world of debt & speculation
- Historic shifts to new centers of growth
National Development & International Competition

I. State & Development - West
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IV. • Competing by Technology
IV. Competing by Technology

A. • Taking the Low Road
B. Technological Upgrade
C. State & Technology
Competition by cost

- Cost cutting
  - Simplest strategy

- Cheaper inputs
  - Labor, materials, land (rents)
  - Taxes

- Greater efficiency
  - This bleeds into upgrades
Geography of cheap

- Escaping high-cost centers
  - Developed = high cost
    - high rent, high wage, high tax
  - One driver of geographic expansion
    - Scale - suburban, regional, global

- Puzzles
  - Relocation v. in-situ cost cutting
  - Lack of convergence
    - Is cost the key to development?
  - Is cheap labor really cheaper?
    - cost of labor ≠ wages only
    - unit cost of labor = productivity + wages
      - Unit cost of low-wage labor > high-wage labor!
    - The importance of productivity
Mexico’s Maquiladoras

- **US industry demand for cheap labor**
  - Facing new global competition
  - Beyond US south
  - The Super-South

- **Mexican development strategy**
  - FTZ along the border
  - Set up 1965
  - Took off in 1980s
  - Doubled under NAFTA-1990s
Limits of cheap labor

- Weak internal market
  - Mexico’s Lost Decade
- Outcheaped
  - Chinese competition
  - Now China is worried...
‘Cheapness’ is a dead end

- No industry or place ever developed by resting on cheapness

- Mythologies of cheapness
  - High wages, high taxes, etc are ‘ruining us’
IV. Competing by Technology

A. Taking the Low Road
B. Technological Upgrade
C. State & Technology
Playing catch-up

- **Strategy of late developers**
  - Start with advantage of lower costs
  - But the key is to raise productivity

- **Competitive edge**
  - Productivity rises faster than wages
    - E.g. Japan in 1960s, Taiwan in 1980s, China today

- **Shift to higher tech industries**
  - ‘Moving up the value chain’
Korean learning

- Japan’s subcontractors
  - Learning by doing

- Reverse engineering
  - Taking apart products

- Upgrading
  - now Korea is far advanced...
Competition Among Developed Economies

- Based chiefly on technical upgrades

- Better production
  - Higher productivity
    - Keeps unit costs down despite higher wages, etc.
  - Machinery, automation, systems integration, etc.

![Total Hourly Labor Costs: GM vs. Toyota](image_url)
New products

- **Basic competitive strategy**
  - New uses, designs, capacities
    - Ipod, Iphone etc.

- **Gaining extra surplus**
  - Short-term monopoly
  - Consumers pay extra
    - ‘Consumer surplus’

- **Moving up-market**
  - Higher profits on elite goods
Product Quality

- What is quality?
  - Functionality
  - Beauty
  - Reliability
  - Durability

- Quality benefits
  - Lower costs
    - Fewer rejects
  - Higher revenues
    - Quality as a niche

- Taking the local global
  - Italian coffee, pasta, shoes
  - French perfume, wine, fashion
German system

- Machines (capital goods)
  - And luxury goods

- High-quality products
  - Continuous upgrades

- Focus on labor skill
  - Upgrading skills
  - Apprentice training
  - Technical High-Schools
Italian case: Carpigiani

- Old Italian company in Anzola (Emilia)
  - ice-cream machinery

- Share of world output fell
  - From 25% in 1980 to 15% in 1990
  - Back to 50% in 2007

- New management & strategy
  - Cut workforce & outsourced parts (cheapening)
  - Quality control (better product)
  - R&D/technical dept. (improved materials)
  - Gelato University (teach labor skills)

- Factory locations: Italy, Spain, US
  - New one in China for Chinese market (not labor)
IV. Competing by Technology

A. Taking the Low Road
B. Technological Upgrade
C. State & Technology
The Holy Grail

- ‘Technical innovation’
  - Every firm & country wants it

- How to get it?
  - Industrial practice & experience
  - Education & training
  - R&D - applied science
  - Basic science
Education

- Basic education (K-12)
  - General skills & adaptability

- Universities
  - High skills
  - Research

- Technical schools & apprentice systems
  - Specific skills
Research Funding

US University-government research alliance
- invented in WW2 under Vannevar Bush

- Military tech
  - Electronics, Computers, Communications

- Biomedical tech
  - Biotech, Pharma, Instruments
Techno Districts

- Science Parks
- Technopolis
  - Science Cities
- Infrastructure
  - IT, rail, ports, etc.

The future is South Korea
Tech firms try out latest in world's most wired society

Birgitta Forsberg, Chronicle Staff Writer
Sunday, March 13, 2005
No simple solution

- No end of ‘tinkering’ & surprises
  - aircraft design, plant genetics, software, SV garages

- New solutions often come from unexpected places
  - New social orders, new industrial challenges