Global Scientific JOURNALS

GSJ: Volume 9, Issue 9, September 2021, Online: ISSN 2320-9186
www.globalscientificjournal.com

Book Review

How Countries Compete: *Strategy, Structure, and Government in the Global Economy*
Richard H. K. Vietor United State of America Harvard Business School Press**,** Jan 25, 2007.

Faiza Amir
faizaamir71@gmail.com

Ihsan Ashiq
ihsanashiq@gmail.com

Abstract

In this book Professor Richard Vietor looks at the economic, political, and structural strengths and weaknesses of ten countries and enlightens readers how to analyze the development of these areas in the future. He presents the thesis that the government's role is the key driving force in competition among countries as they facilitate growth by providing security, managing macro economy, shaping industrial policy, liberal work rules through strong institutions and educated skilled work force. He examines the economic, political, social, and structural dimensions of 10 countries. Based on these analyses, Vietor selects Singapore, China, India and Russia as good prospect for future investors. Countries competes for FDI, managerial skills technology, distribution channels, all these are for development which contributes reduction in poverty, better living standards and job creation. At the same time Vietor argues that strategy alone is not sufficient, organizational structure for effective implementation is equally important. Richard has distributed the book in three parts: Pathways to High Growth (Japan, Singapore, China & India), The Difficulties of Structural Adjustment (Mexico, South Africa, Saudi Arabia & Russia) Deficits Debt and Stagnation (Europe, Japan & America). As the world is becoming borderless and globalization is emerging, countries compete for the new and potential markets, technologies, and skills needed to raise their standards of living. These strategies can make the decisive role in the make or break of the government's efforts to drive and sustain growth in the long run. Vietor provides concentrated assessments of different approaches to government facilitation of development. Individual chapters focus on the unique social, economic, cultural, and historical forces that shape governments' approach to economic growth.

Key Words: Growth, Strategy, Structure, Government, Policy

1. Introduction

Richard H. K. Vietor is the professor of environmental management at Harvard Business School and teaches, Regulation of Business and International Political Economy. Professor Richard Vietor looks at the economic, political, and structural strengths and weaknesses of ten countries and enlightens readers how to analyze the development of these areas in the future. His book's theme is that countries compete for market share in the $44 trillion world economy and that this competition is led by governments. Strategy (policy tools) and structure (political, economic & institutional) must fit each country's context. Vietor confronts the widespread notion that, in market-driven economies such as the United States, a strong government can only hinder business success. A provocative resource, "How Countries Compete" offers compelling insights into how the business environment has evolved in the nations and what its trajectory might look like in the future.

Countries, he writes, compete for market share in the world economy, for export sales through business and for foreign direct investment together with the associated managerial skills, technology and distribution channels necessary. If countries don't compete, if they don't get their economic house in order by competing for market share, they end up with economies like North Korea and Burma which compete to reduce poverty, accommodate urbanization, better living standards and create jobs opportunities to stimulate economic growth through expending aggregate demand and supply with fine tuning.
Governments lead competition by providing security, ensuring contracts are honored, assuming risk, managing the macro-economy and shaping industrial policy. They create and sustain institutions, whether they are political, social or economic. Despite the day-to-day ups and downs of individuals and business, huge responsibilities are vested to government. These include fiscal and monetary policy, housing, education, health, research and development, institutional reforms, structural changes and defense. Companies obviously benefit from healthy, growing economies with wage growth slower than productivity growth, the availability of an educated work force and from relatively liberal work rules, from low real interest rates to encourage investment and few regulatory barriers to investment. Firms need competitive exchange rates, secure property rights, reasonable income distribution, low corruption and few trade barriers.

In "How Countries Compete," Richard Vietor discusses the ways in which governments can best set direction and provide a healthy climate for a nation's economic development and profitable private enterprise. Drawing on history, economic analysis, structural & strategic prospects and future trends, author provide the concreate pathway for future with suitable appropriate policy framework and strategic action plan.

2. Review and Discussion

Now we will analyze one by one all three segments and discussed the different countries strategy, structure and Government policies along their evolving histories and evaluating action plans.

2.1.Part I: "*Pathways to Asian High Growth*"

In the first part *Pathways to Asian High Growth* writer has discussed the four countries; Japan, Singapore, China and India. For Japans economic miracle competitive edge was its institutional strength. Japanese were humiliated by their defeat in 1945 war against USA. Surviving Japanese men felt a deep obligation to rebuild the country through hard work and strong economy. The key role players were MITI (ministry of international trade and industry) and MOF (ministry of finance). These organizations recruit best most talented students from best Japanese universities and provides them life time employment opportunity, power and profitable retirement. These people are called AMAKUDRI (descent from heaven) who after retirement from government went to work as senior executive with big firms which they previously regulated under the ministry. Japanese has developed an exceptionally good education system. The Japanese got the comparative advantage from US in production due to exchange rate of 360 Yun per doller for 22 years. Japanese produced highly value-added products. The main dominating industries of Japan are steel, oil refining, petro chemical, automobiles, aircraft, industrial machinery, and electronics.

Mass production creates economies of scale and reduce marginal costs. Capital was raised in form of debt and equity from internal sources mostly through savers bank KEIRETSU. Government mostly spends on new plants & equipment, R & D, infrastructure and education. Macroeconomic indicators are very promising with low inflation, small unemployment rates coupled with extremely high growth rate but due to WTO and extra ordinary production facility of china miracle of Japan is seems over now and lacking in fanfare. Vietor admires Singapore's progress from an insignificant island off the Malaysian peninsula emerging into the new economic tiger of Asia and wonders whether its strategy of low taxes and industry clusters using brainpower will work and result in the lucrative growth. If we look at the history in 1819 Singapore was the British colony and in World War II Britishers surrendered it to Japan, and renamed Syonan (Light of South) after WWII it was taken again under British rule but finally in 1963, they have withdrawn and United Malaya Singapore established. In 1965 Singapore became independent. It is mostly man-made country called The Lion City providing largest transshipment point for countries. The five clusters of focal corporate business are Petrochemicals, electronics, logistics, transportation, information technology, communication, media and biomedical sciences. Singapore has applied the development strategy of encouraging foreign manufacturers to produce in Singapore (one stop shop for foreign investors) and export again to the west by providing industrial infrastructure, skilled cheap labor, removing trade and investment barriers, special tax exemptions, low tariffs, stable exchange rates and non-inflationary regime. In 1960 per capita income was US$427 and in 2004 it is US$24793. China, of course, is the big question and giant in the area with economic and political prospects.

According to Johnson, et al (2008) China and India are two big players in emerging markets. They are growing rapidly and are certain to rank among the top economies of the world in the next two or three decades. With good management, there seems little to stop it dominating world growth for at least another decade but doing so means finding more than 8-9mn new jobs annually, fixing the banks, privatizing or mending the larger state enterprises, adjusting to WTO membership, managing a more sensible exchange rate and coping with the social issues of water, power and the environment. Failure would be catastrophic and disasters.

China is a pragmatic state with maintaining peace and preserving power. Historically rich Yellow River valley with moist soil and Rice farming. Ruled by different dynasties; Zhou, Qin, Hun and strong impact of Confucianism and invasion of Japanese and British trough trade and caused opium war finally communist party emerged and got the strong hold. Mao introduced many reforms master minded by Deng Xiaoping and through red army (peole liberation army). He destroy the four olds “Thought, Culture, Customs & Habits”.After the death of Mao, Deng Xiaoping introduced pragmatic reforms with slogan “who cares if a cat is black or white as long as it catches the mice”. He depoliticized economy, controlled the population, allowed property rights and farmer reforms, opened trade and introduced dual exchange rate system. In 1992 GDP was $484 million and in 2004 it is $1.587 trillion. In 1999 granted the most favored nation status by America and in 2001 became formal member of WTO. New leader Hujintao faced the fourth-generation leadership issues of peaceful unification with Taiwan, control over Hongkong and relation with US. China had used strong centralized government to implement the strategy of gradual liberalization. India is historically eight thousand years old deep cultural and old sophisticated civilization. China has been a huge growth success over the past two decades and significant causes of its growth can provide useful lessons for nations trying to match its growth success (Maddison, 2009).

India is diverse climactically, geographically, linguistically, religiously and culturally. blessed with fertile land, minerals rich, iron & ore, and coal reserves. Per capita GDP is $610 distribution skewed towards well educated urban & upper classes, 88th on corruption perception list 20 % parliament had criminal background and strongly prevailing caste system. After the freedom struggle declared Republic and secular, parliamentary democracy in 1947 from the British rules. In 1948 democratic socialist Nehru had done state planning to allocate scarce investments: what is the size of investment and how it allocated among alternative uses. Government consolidated the sectors of rail road’s, telecommunication, power, postal, commercial banking, insurance, fertilizer, mining, steel, chemicals and oil. Prevent the unnecessary competition of duplication of efforts by establishing industrial licensing and monitoring. Accelerated domestic production through national strategy of “Buy India”. Extreme Government control cultivated “Permit Raj”.1984 turnaround by liberal policies of congress party. In tenth five-year plan (2002 – 2007) focus on primary, IT & engineering education for maximum expansion and stimulates growth possibilities. IT sector is encouraged by relaxing restrictions on import of technology, the absence of taxes on software exports. Wipro, Infosys, Tata Consulting services exceeds $1 Billion. By 2002 more than 40% of the world fortune 500 companies had outsourced a portion of their service operations to India. Now India is on the move with growth rate of 9.3% in 2006. Only critical issue is externally relation with Pakistan and internally Hindu Muslim tension.

China and Russia mostly showed higher growth, taking other factors and conditions stable, while India showed positive growth in some cases and less in other due to geopolitical problems, infrastructural limitation and diversity issues. On the other hand, we were unable to find Brazil performing better than the rest. The main policy lesson from this is that, given the dissimilar composition of the BRIC group, the lessons for other nations looking to boost growth by emulating BRIC nations might be limited. Such nations would have to pay careful attention to their own comparative advantages. (Goel & Korhonen, 2012)

2.2.Part II: "Structural Adjustments"

In the second part of the book Prof Vietor exposed the difficulties of structural adjustments of four nations; Mexico, South Africa, Sudia Arabia and Russia. In 2000 Vicente Fox of Partido Action minority party of Mexico overturned seventy one years of corrupt & authorities rule of Partido revolution. After 22 years of political resistance and 18 years of adjustment to debt crisis people are now ready to realize the benefit of reforms. In 1994 joined NAFTA and embraced globalization. In 1821 through General Augustine Mexican get victory over Spanish and declared independence. After World War II policy of producing substitute goods has been adopted and reduced the dependence upon imports of manufactured goods and export of raw material. Mexico has introduced policies of high tariffs and quotas on imports, availability of long-term low interest loan facility through state investment banks. Impact of all these steps have a positive effect on the growth, low inflation, high productivity and employment opportunities and increased foreign direct investment. 1994 was the year of celebration deficit reduced spending on education, urban development and social security was increased. From 1995 and other fall started by capital flight to USA and a lot of corruption related issues in Government, public and corporate sector. Finally in 2000 Fox became president and introduced reforms which result in again increased GDP, debt reduction and employment opportunities.

Now Mexico has great potential and promise. It is now ready from incomplete transition to a real Mexico Miracle. Following its opening to trade and foreign investment in the era of 1980s, Mexico's economic growth has been modest at maximum, particularly in comparison with that of China. Comparing these countries and reviewing the literature, we conclude that the relation between openness and growth is not a simple one. Using standard trade theory, we find that Mexico has gained from trade, and by some measures, more so than China (Kehoe *et. al, 2010).*

South Africa has suffered over time a lot of blows and wounds in the hands of colonial era and territorial, tribal and racial wars. All this contributed to wards zero growth rate, hyperinflation, lowest employment rate ect. New South Africa emerged after the death of Frederick in 1990 and repeal of Apartheid laws. In 1994 after the election and the selection of President Nelson Mandela of ANC the better days for the country started, the foremost challenges were crime, education, infrastructure, unemployment, immigration and AIDS. A lot of new reforms are introduced in all sectors with the advice of team from Harvard University and fruits are beginning to emerge. Policy of property rights, business ownership, empowerment of blacks and access to financial services, South Africa is finally getting in the gear.

The third discussed state in the second part is Saudi Arabia with its dilemma of modernization versus westernization. Since 1973 Saudi Arabia had been modernizing rapidly. 261 billion barrels of oil represent ¼ of the world proven reserves. Over the three decades; modern infrastructure, modern cities, eight national universities and huge ports have been established. Al Saud dynasty is still ruling the country, almost 8000 of ruling family controls the much wealth, many important businesses and significant share of the government. King Fahad liberalized Saudi economy and burst the non-oil reserves producing 8 million barrel oil daily and became the swing producer and dominating the pricing policy of the OPEC. In Saudia policy of no income tax, all revenue came from oil export, excise taxes and revenues from state owned enterprises. Large expenditures are defense, security, education, debt service, health, water, infrastructure and social subsidies. Sound monetary condition, inflation nonexistent, well managed money and banking system. With the reforms of past crown prince and present King Abdullah all sectors of economy are growing. Rapid growth in petrochemicals, steel, rubber, plastic and construction material and business. Now focus is on new technologies, full digitization and automation, privatization and judicial system.

In the second part the last country discussed by Professor Richard is Russia. Theory of communist may be summed up in a single phrase “Abolition of private Property”. Lenin was trying to adapt the Marx’s idea to Russia, leading people from feudalism to socialism. Stalin’s forced industrialization and collectivized farming did indeed make the USSR huge economy. USSR was rich in resources, human, capital and natural resources. Gorbachev introduced reform but ultimately USSR disintegrated in separate states. Finally, when Vladimir Putin came into power if put the country back on track through shock therapy and strong reforms. Now slogan of Russia is apparently “America we are with you” and quietly following the recovery process. As predicted by Gvosdev (2002) that perhaps greater Russian integration into the global economy could create enabling environment and conditions where economic sector, civil society institutions, political parties and media houses will acquire greater autonomy and free expression from the state regime. Yedinstvo can be divided into multiple factions; this could especially important that there no available candidate to succeed Putin as president in 2008.

The present social consensus that a controlled democracy and the stability it stimulates are a necessary training before Russia will fully transition to a developed democracy might subside over time, leading to expending the Iimits gradually in phases currently imposed on multi part competition. Anyhow, it befits those interested in Russia to pay greater attention to Mexico as a model to follow and guide for Russia in the twenty-first century arena and emerging global challenges and geography.

2.3.Part III: “Deficits, Debt, and Stagnation”

In the third part addressing the issues of “Deficits, Debt, and Stagnation” Vietor has discussed three countries; Italy, Japan and America. For more than five decades Western Europe has been undergoing a process of integration, first tariffs, then exchange rates, then barriers to movement and finally monetary union. In case of Italy, productivity growth remained a central issue, tied to macroeconomic shocks, wage rigidities, excessive regulations, industrial structural and status of welfare state put extra pressures. From 1971 to 1991, Japan’s economy grew at about 4.4 % per year. The pressures of globalization had begun to impinge on Japan’s success. The problems which are currently faced by Japan are deflation, pension, medical care, declining saving, privatization and deregulation; all this contributed to fiscal deficit which if not alleviated would soon become unsustainable. In 70’s due to oil shocks and devaluation of $ Japan witnessed tough time in exports and manufacturing, but in 80’s confidence is restored due to appreciation of $ called high yen Endaka. In 90’s due to excessive debt and raised interest rate strong load on corporations but after 2000 Japanese introduced a lot of reforms with the slogan of free, fair and global. The future vastly depends upon institution, macro economy and government policy. The survey conducted by Hoshi, and Kashyap (2004) to study the macroeconomic stagnation and financial issues in Japan. Assessment includes analyses of the commercial banks, the life insurance companies and the government's fiscal investment and loan program in detail, they found that the Japanese taxpayer will have to pay at least another 100 trillion yen (20% of GDP) to overcome the financial system losses, the present Japanese banking system not allocating funds properly by keeping many firms with risky liquidity in business. These inefficient firms crowd out better potential ones and increases the macroeconomic stagnation. A sustained macroeconomic recovery needs major restructuring focus on stopping this cycle

Finally, he looked at United States' how it is going down into deficits and debt. Despite high growth, low inflation and outstanding improvement in productivity, the United States had developed huge fiscal and trade deficits, with no savings to support them, it borrowed more and more from foreign factors, who consequently owned more and more U.S. assets.

By 2006 these problems are reaching crisis stage alongside with intensive involvement in war against terror across the globe. Blecker (2016) stats that the US economy has experienced a slowdown in its long-term growth and job creation that preexists the Great Recession. The stagnation of output growth resulted mainly from the negative effects of rising inequality on aggregate demand, both high inequality and the gap of employment from output have their roots in profound structural changes to the US industrial structure and international position. Stagnation signs and issues were for the time being offset by debt-financed household spending before the financial crisis, after which households became more financially constrained and under intense pressure as well the economic growth contracts.

3. Conclusion

To sum up in the first part the Asian high growth section focuses upon the factors behind the region's economic successes over the past 50 years. Vietor highlights separately the reasons behind the growth in Singapore, Japan, China and India. In particular, Vietor describes the characteristics that make each growth story unique high savings rates, strong centralized government, specific cultural values and the export led strategies. These are compared with the less successful strategies to be found in Mexico, Saudi Arabia, South Africa and Russia. Finally, he addresses the problems facing Europe, post-bubble Japan and the USA. It is in the final chapter, however, that he brings the strands together to point out the various trajectories that countries could be passing along. He describes essential elements of effective government policy in order for countries to compete, allowing the reader to consider, with confidence, the possible future for each particular country. The challenges each country faces are spelt out simply. Although the considerable trading deficits and low domestic savings of the US give cause for concern, China and India will continue to see relatively rapid economic growth, which will attract foreign direct investment, determine trading positions for goods and services and eventually lead to rising wages. This is a lesson that Latin Americans, African's and certain European countries must learn and take advantage.

Vietor is optimistic about the prospects of the world economy, he wrote for instance, "I'm more optimistic about Russia…than I've been at any time in my adult life. I'd invest there, with the hopes that it emerges as a strong capitalist democracy over the next couple of decades." The fact is, ordinary Russian's dislike democracy and attribute many of their troubles to it. Former President and now Prime Minister Putin seems intent on restoring Russia's Cold War clout. Without oil and gas revenue, there would be no Russian economy. His closing sentence: "it is our responsibility to manage the globalization process and to make our countries compete" is much generalized term. Asian countries have built powerful growth engines based on exporting to America and Europe, through cheap prices driven by cheap currencies. They show no inclination to change their ways. Nor do Americans show any sign of understanding they cannot sustain current negative savings rates to maintain comfortable lifestyles.

According to Jari Eloranta (2007), there are minimum or no quantitative evidence to support the all the discussed facts and arguments as well as it lacks theoretical depth. Moreover, Vietor did not highlighted the key developments of institutional economics and history. A comparative analysis of particular informal institutions and cultural development patterns would have enriched the analysis.

Last Word

In the end Professor Richard advised investors to be increasingly cautious about U.S. deficits, Japanese debt, and fundamentalism in Middle East. He is more optimistic about doing business in India and Singapore, carefully optimistic about South Africa and Russia, and just plain careful about China, Mexico, and Europe.

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