

# **NATIONS AND GLOBAL ECONOMIC COMPETITION: The Influence of Conflict and Politics**

## **Abstract**

One needs to reflect upon the key concepts involved in the enquiries into economic competition, allowing for the role of conflict, which hardly surfaces in standard models in neo-classical economics. Focussing in particular upon how established trade theory model key features of the global market economy with regard to competition, we ask: Do they take into account the role of conflict? Nations position themselves in the global market place, protecting so-called national interests or economic niches, fearing the zero-sum or constant-sum implications in the conflict among economic interests. Thus, for instance, a new form of economic warfare is China's broad penetration of African country economies, involving a large set of transactions including financing – often long-run, trading infra structure and mining projects against natural resources, securing long lasting imports to China and at the same time promoting exports from China.

**Key terms:** laissez-faire, competition as zero sum and variable sum games, national interests, key industries, comparative advantage, niche, competitive advantage, industrial policy debate, level playing field, de-localisation, Krugman against Thurow: "*head to head*", *New Colbertism*, Friedrich List, Gershenkron, Johnson, EU decline, rise of China.

## **INTRODUCTION**

According to the dominant discourse of the neo-liberal period in the age of the Washington Consensus and the period of New Public Management (NPM) for affluent countries as well as Structural Adjustment Policies for developing countries, competition among firms is a most effective mechanism for social interaction when it comes to the allocation of economic value. The endorsement of competition had a strong theoretical underlining in the teachings of the Chicago School Economics as well as in pure mathematical economic modelling, or equilibrium theory. With the re-emergence of Keynesian economics (Krugman, 2008) and the difficulty of the austerity approach in Western countries (Bootle, 2014)), one may wish to enquire into the neo-liberal model of competition and contrast it with the opposite view of competition as involving conflict among nations.

One may approach competition from two angles, first the domestic market and second the international scene. Typical of globalisation is that the two have become intermingled to a large extent. Already with a central institutional theoretician like Torstein Veblen around the Great

War, the fate of the domestic economy was linked with competition in the external market.

The stylised image of politics is that of involving confrontation or often violent conflict (zero-sum games), whereas economics tends to be modelled as bargaining and cooperation (variable sum games, win-win) (Riker and Ordeshook, 1973). These classic dichotomies need to be questioned, both theoretically and practically. It has been emphasized by rational choice scholars that politics, especially in countries with a set of democratic institutions, involve lots of bargaining or negotiations: "Politics is deal making", states Shepsle (2010). However, we must also recognize that economic interactions have a good portion of conflict, perhaps even violent ones, especially in the global market confrontation between nations.

In the history of economic thought as well as within the theory of political economy, competition has been modelled in two contradictory ways. On the one hand, laissez faire economists look upon competition as a mechanism for achieving Pareto-optimal outcomes, as the competitive equilibrium secures the lowest price and the maximum production feasible in a given market environment. On the other hand, Marxist economists view economic competition as struggle with whatever means available for profits. In his classical *Economy and Society* (1978), Economic sociologist Max Weber underlined that social life is replete with fighting for economic advantages or opportunities resulting in what he called "*Auslese*" or selection. In all forms of economic interaction, there is an element of collision of interests of various kinds. This was the basic insight of Weber's *realism*, allowing him to understand the variety of economic phases or structures (Weber, 1978, 2003, 2013). Let us look closer at the key concepts involved in "competition".

## CONCEPT OF ECONOMIC COMPETITION

The core meaning of "economic competition" is the following according to a dictionary: The standard meaning of "competition" is as follows: "Competition" means:

- 1) rivalry, opposition, struggle, contest, contention, strife, one-upmanship (informal) There's been some fierce competition for the title.
- 2) opposition, field, rivals, challengers In this business you have to stay one step ahead of the competition.
- 3) contest, event, championship, tournament, quiz, head-to-head.

Source: Collins Thesaurus of the English Language, 2002.

Economic competition focuses upon profits and market shares. The outcome is according to the ideal-type model of market competition in the

textbook economics to be decided only on the basis of competitiveness, One speaks of *three* kinds of competitiveness or the capacity of winning over another – the opponent - in the acquisition of economic values:

a) Firm competitiveness: one firm outcompetes another firm in sales, profits or market shares;

b) Country competitiveness: somehow it is said that entire countries offer a more or less competitive environment or culture;

c) Institutional competition: to explain country differences in competitiveness one often refers to the set of institutions or rules in place.

In the classical model of so-called full competition, or completely the competitive or free market, the rules of the game – the institutions – play a major role. Economic institutions define entry conditions in the domestic market, as well as the conditions for competition in the foreign markets, as laid down in bilateral, regional or international agreements on trade and foreign direct investment. Introducing and enforcing these institutions is a political task, where governments may take a number of interests into account besides fairness and level the playing field.

Thus, with regard to national competitiveness German economist Friedrich List outlined already in 1841 a coherent framework for the national promotion of industrialisation and the country economy, although rejecting the Marxist idea of abolishing private property. List was as a matter of fact quite influential, especially for the emergence of the German historical school in economic theory: Schmoller, Sombart and Weber. With the strong German influence upon the Meiji Restoration, it is plausible that Japan adopted List's framework in the development of its economic modernisation model.. However, in Germany and Austria the marginalist framework of Menger proved the strongest in the long run, supported by Swedish economist K.Wicksell.

Concerning the regulation of domestic markets, one can point to the Peltzman model of congressional legislation as a political game of lobbying where the Politician maximises his/her own benefits for allocating policies and contracts to society and the business community, including protection and subsidies (Peltzman, 1998). The outcome of political intervention in the economic institutions of a country may have a huge impact. Thus, for instance one speaks of a set of market institutions as stimulating towards firm or country competitiveness more than other kinds of institutions, like the planned economy or clientelism like crony capitalism. Acemoglu and Robinson (2013) identify inclusive institutions in the economy as well as in the polity as especially conducive to country affluence, outperforming exclusive ones. But they also argue that politics and revolutions played a

major role when countries embarked on the road to either inclusive or exclusive set of institutions.

Moreover, one makes a distinction between orderly economic competition and savage forms of competition. The former requires that there is a set of rules that are followed by the contestants and enforced by a Third Party – institutions, whereas naked competition may be conducted with whatever means are available in order to prevail. Yet, often there is ambiguity or controversy concerning the rules of competition, as strategies of competition display opaqueness: What is fair competition? At the end of the day, the courts play a major role in deciding about the fairness of competitive behaviour – consider e.g. the enormous legal processes and litigations concerning monopoly and oligopoly in anti-trust law.

Competition can be analysed from two perspectives, namely both a zero-sum game and a variable-sum game. It depends upon the stand-point adopted, viz those of the competitors or that of those benefitting from competition. Competition between two or more firms is a zero-sum game for the competitors, like Nokia against Samsung, but for the market as whole it is a variable-sum game, involving increases in total global output. From the point of view of nations, the outcome of giant firm competition may be the loss of an advanced industry, like for Finland.

## **Zero-Sum or Constant Sum *versus* Variable Sum Games**

It may seem inconsistent to examine economic competition from the point of view of conflict, given the established distinction in game theory between variable sum games and zero sum games. As long as economic competition is restrained by rules and effective institutions prohibiting violent behaviour, it would basically adhere to the logic of the variable sum game, as with economic life in general. Zero sum games display the logic of adversity or conflict interaction, whether the means employed are peaceful or violent ones (Luce and Raiffa, 1957). Yet, one should question this simple classification of economic life as overwhelmingly win-win situations and, as an implication politics as fundamentally zero sum situations.

In economic history, economic competition has sometimes taken on the features of warfare, as when a country exploits another under a colonial regime, for instance India under British rule, favouring British industry ahead of Indian industry. Countries often went to war in order to secure economic interests in trade, agriculture or manufacture. Whether it always paid off is another question, as warfare tends to become very costly on its own terms. Thus, one has asked: Was colonialism profitable at all?

The debate between free marketers and Marxists has a long history, dealing with some central themes in economic theory, like trade, foreign direct investments, regulation, anti-trust policy and monopoly as well as oligopoly. Here, we shall focus upon the present day situation with free trade and foreign direct investments among nations as the central topic, given that several areas of economic competition have been deregulated globally or regionally. Is global competition fair competition, or is it economic warfare strategy where not only firms but also governments go head to head? Let us first examine the implications of the theory of competitive equilibrium and second look at the risk of industry decline, de-localisation and loss of national economic niches.

## NEO-LIBERAL DISCOURSE

One may single out two sides of economic competition. On the one hand, the individual firms – *the micro perspective* – have to approach the struggle for market shares as a battle where competitive edge plays a considerable role, especially in deregulated markets. On the other hand, there is the national or government *macro perspective*, focussing upon the competitive macro position of its entire country globally. The process of globalisation presents the individual firms with an integrated market, where it has to compete both domestically and globally. The same process also makes government look for policies that increase the global competitiveness of its own or national enterprises, one reason being the fear of de-localisation and loss of employment/tax revenues. An attempt to model this new global situation, where countries face the challenge of competitive advantage more than old comparative advantage, has been made by Michael Porter.

## Porter: Competitive Advantage

According to the seminal theory of competition launched by Michael Porter, what decides the success or failure of nations is not comparative advantage but competitive advantage. Let us quote from him:

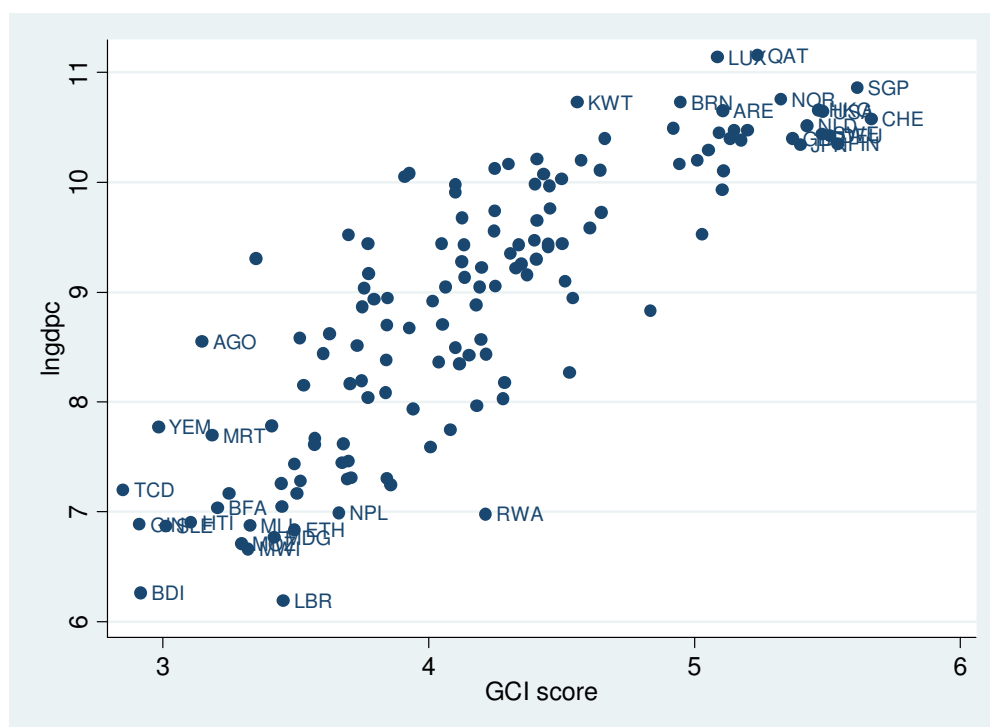
In the modern global economy, productivity depends less on what industries a nation's firms compete in than on how they compete – that is to say, the nature of their operations and strategies. In today's global economy, firms in virtually any industry can become more productive through more sophisticated strategies and investments in modern technologies. (Porter, 2000: 16)

The Porter theory of competition fits with the neo-classical theory of economic growth, underlining the fundamental importance of labour, capital and technology. In addition, it inserts the notion of a *competitive climate* in a country, which is to some extent an endogenous variable that

can be impacted upon by government policy-making. Decisive for the success or failure of a nation is the amount of competition in all three basic factors promoting economic growth: labour, capital and technology.

The Porter model does not mention competition as a strategy by governments involved in a struggle *head to head* with other nations. It entirely rejects the relevance of industrial policy-making. And it looks upon the competing firms without any national bias. Consider Diagram 1, which portrays the overall economic advantage – GDP per capita – as a function of the degree of country competitiveness, as measured by the Davos institute.

Diagram 1 Country Competitiveness and GDP per capita (ln)



Note:  $r = 0.8361$ . Sources: GCI: <http://www.weforum.org/reports/global-competitiveness-report-2013-2014>, Growth: <http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/index.aspx>; GDP/capita: <http://databank.worldbank.org/data/home.aspx>

One observes in Diagram 1 that economically successful countries are characterised by high scores on this much debated competitiveness scale. But Porter needs to explain where the climate of competition comes from. He argues that a competitive industry on the global scene is one where there is strong competition domestically among a few producers. Thus, forceful domestic competition creates a national competitive advantage. Example: Swiss "horlogerie," or Swiss pharmaceuticals, the German car industry, manufacture of clothes in Bangladesh, Silicon Valley technology, French wine or luxury items. But how is one to advance the competitive edge of national industries? One could think of a variety of measures that increase the competitive edge of a country: cheap financing, monetary policy like devaluation, technology transfers, copying, joint ventures, etc.

It is true that competition is today supported by both domestic and international institutions. Free market economics usually underline the necessity of external rules and their enforcement for the functioning of the competitive market. But if government is to supply these rules domestically or in collaboration with other states on the global scene, what would stop them from trying to deviate from a strict level playing field, if this promotes certain national interests? Emerging economies are not only interested in a level playing field, supported by for instance the WTO. Their governments are also interested in strategies that help their enterprises win international market shares or invite foreign companies to settle down in their country. They fear de-localisation. Economic change may be very rapid when an emerging country can draw upon both strategies: expansion abroad and foreign direct investments at home. These political implications of competition are very important for a country and its government, although they tend to be dismissed in a purely abstract theory of economic competition.

One may consult economic thought to contrast the two ideal-typical approaches to competition: on the one hand competition as resulting in Pareto improvements and higher total output with lower prices against on the other hand the actual process of competition as the firm battle over market shares.

### ***"Law and Economics"***

Economic competition can be enquired into through two entirely different perspectives. One approach to economic struggle targets the process of competition, the means employed and the extent of adversity manifested by the participants. The other approach looks at the outcomes, especially whether the consumer benefits from producer competition in the form of lower prices and bigger output. One finds the first perspective with scholars doing empirical research into processes of economic change, often Marxist, radical or institutionalist scholars. The alternative approach is to be found in mainstream economic theory, especially with a neo-

liberal bend, using the Walrasian equilibrium model that full competition promotes Pareto improvements. Thus, economic competition has been analysed as either predominantly a zero sum game or as basically a variable sum game.

The scholars who contributed to the school *Law and economics*, like H. Demsetz and R.A. Posner, would be inclined to reject the Schumpeter view. According to *Law and economics*, the market has an inbuilt drive towards the perfectly competitive equilibrium, especially when domestic markets are linked globally in one single market economy. Basically, the size of the market is determined by the law, meaning that global competition is feasible when there is legal order sanctioning a complete level playing field all over the world (Cooter and Ulen, 2006). Neo-liberal economists would argue that only the institutions of free market economics with a neutral state can bring lasting welfare (Friedman, 1962: Stigler, 1977). The Chicago School of Economics developed impressive theoretical tools in favour of the self-regulation market mechanisms, based on their ideal-type model of economic organisation – perfect competition and open entry (van Overtveldt, 2007). The most advanced hypothesis was the rational expectations theory that gave the markets an unbridgeable information advance in relation government and politics (Cassidy, 2010). Yet, there was no lack of criticism from American scholars who spoke of the interdependencies between big business and big government (Galbraith, 1967). The free marketers favour global free trade and floating currencies, sometimes also the abolishment of the World Bank and the IMF.

The state is modelled as the neutral umpire in the neo-liberal conception of economic competition, for the domestic as well as for the international economy. As an impartial umpire, government only needs to uphold open entry into the markets in order to secure the Pareto optimal results. When there is open entry, monopoly or oligopoly breaks down automatically and anti-trust policy-making is needless. The global market economy with open entry maximises output through free trade and foreign direct investments, according to standard trade theories, like Ricardo. Heckscher-Ohlin and Krugman (Krugman and Obstfeld, 2011), But is the state really only an umpire in in the economy, especially in international economic affairs?

## THE ALTERNATIVE DISCOURSE

Strategies of economic competition become indistinguishable from warfare when politics is employed to conquer countries – colonisation – or when colonial powers employ their domination to subjugate the economy of the colony. Neo-classical economists have shown little interest in these forms of outright political intervention for economic objectives, but

economic historians debate them often without arriving at consensus sometimes.

Take two examples of purported economic warfare: British rule over the Indian economy, forcing India to buy British manufactured goods and sell cheap primary goods, and the operation *Cobra*, i.e. the invasion of Iraq in order to purportedly get access to cheap oil. Yet, whether British colonialism was profitable or not when all costs are taken into account has been questioned. It is true that the UK gave up colonialism partly for economic reasons: "Trade not Empire"! Operation *Cobra* (*Iraqi Freedom*) was a complete failure from all possible angles, except that of removing a brutal dictator. The US army had to pay market prices for the petrol and gas it used for its war machines in occupied Iraq.

When the zero-sum aspects of economic competition are emphasized, it is rarely a question of colonialism, which is outdated. Thus, the Soviet Union exhausted itself not only in the failed interference in Afghanistan but also in providing more or less free or subsidised things – resources, arms – to its allies. Today economic warfare refers primarily to rapid changes in international trade, involving heavy de-industrialisation, de-localisation and losses of economic niches

## **INSTITUTIONALIST ECONOMISTS**

When one turns to detailed enquiries into industrial change on a global scale, one encounters several examples of competition as economic warfare. Today, major industrial change comes from de-localisation, meaning the transfer of firms or parts of entire industries from one country to another, or from foreign penetration into core industries in a country. De-localisation is hardly a variable sum game, as one country may lose considerable employment without any compensation in sight, at least in the short run perspective.

Veblen in Imperial Germany and the Industrial Revolution (1915) was well aware of the major industrial changes going on around the First World War, looking at the world conflict between nations against that background. If a nation can capture a new industry, it may benefit tremendously at the expense of other nations. Today, the enormous expansion of industrialisation in South, East and Far East Asia has come with heavy losses of industry in both Europe and the USA. Whether government had a big or a small hand in these developments that now result in growing affluence in Asia but austerity and unemployment in the West, can always be debated. The global market forces push themselves for de-localisation. Whether de-localisation is supported by currency depreciations is much debated today, given the quick rise of China as an industrial super power on the basis of a low currency valuation (Rickards, 2011).

One may approach competition from two different angles, namely that of the firms in the market (micro) and that of the state, supervising the markets (macro). Schumpeter (1989) argued that competition would tend to be fundamentally instable from both the micro and the macro perspectives. The firms in the market place would resort to *creative destruction* in order to create monopoly or oligopoly situations that would allow them to engage in full scale profit maximisation. Innovation upset the competitive equilibrium, allowing for short term excessive profits. In the long run, government would intervene to stabilise the fluctuations caused by creative destruction by its "*march into socialism*", eliminating the jealousy that capitalist success results in.

Of Schumpeter's two ideas on competition, only that of innovation and contestability has survived. Schumpeter definitely modelled the process of competition – whether domestic or international – as a kind of warfare concerning turf where an intruder could eliminate the established players in a zero sum battle for market shares. The consumers could sit and watch the fight between the dinosaurs, but for the employees the predicament could mean too much risk.

This question about the nature of economic competition in the global market has been debated intensely since the publication of Head to Head by L. Thurow (1993). The perspective upon international trade as a conflict between countries - head to head - was sharply rebutted by P. Krugman (<http://www.pkarchive.org/cranks/Thurow.html>). Interestingly, Krugman took the classical Ricardian look upon trade as a variable sum game with possible Pareto improvements for all partners, despite his emphasis upon the political elements in other forms of economics.

It is to be admitted that Thurow (1993) received little appreciation in terms of his book on the future competition between on the one hand the US and the EU versus on the other hand Asia; east, south east and south Asia. Krugman among others argued with much emphasis that such a perspective upon global trade and market shares for the major country companies entailed too much of a zero sum perspective upon international trade and investments, which basically resemble more variable sum games with feasible coordination successes. But were really Thurow's predictions or warnings so irrelevant?

Whether economic transaction - domestically or internationally – are seen as constant sum or variable sum games depends upon how the concept of competition is defined or approached, whether it is a matter of competition between firms, countries or even institutions.

## DEVELOPMENT ECONOMISTS

The industrial policy debate between free market economists and state capitalist theorists never resulted in a conclusive explanation of the Asian miracle, its sources and mechanisms. On the one hand, it was argued that import substitution and export orientation had helped several firms to reach sufficient size. On the other hand, it was counter-argued that a number of firms succeeded despite industrial policies due to acceptance of market pressures.

The so-called Asian developmental model approached economic growth as a zero sum game, where market shares were up for grabs. Wade (1990) argued forcefully that governments could steer markets to the advantage of national interests, but his thesis has been criticised (Naughton, 2006). Returning to the theme, Wade (2003) insisted on the advantages of a developmental state, supported by Chang (2002, 2008).

Market shares constitute a zero sum game, at least in the short run. Internally, monopolies and oligopolies attempt to maximise market shares in order to control price and quantities. Globally, the MNCs or TNCs similarly aim at securing market shares in numerous countries in order to exploit the benefits from economies of scale. Yet, the struggle for market shares typically runs into some severe collective action difficulties, especially in the long run. Thus, we have:

- When one player tries to maximise market shares, this firm will face sooner or later similar tactics from other players – the PD game, or collective foolishness.

- The strategy of maximising market shares by imposing entry costs on other firms by predatory pricing is costly, especially when contested by other firms – the so-called *Chainstore Paradox*: when competition includes several rounds of play, predatory pricing will fail because in the last round, as it becomes too expensive; with backwards induction, the same applies for the next to last round, etc. (Vega-Redondo, 2003)

When the force of the state is employed in these tactics of securing market control, government tends to run up various costs – dead-weight losses and rent-seeking costs. Yet, these arguments against governance of the market do not entail that states are not prepared to engage in various strategies and tactics improving competitive edge. There are examples of great success for industrial policies, but also of some dismal failures. One is reminded of the contrast between East and South East Asia on the one hand and Latin America on the other hand where the economic philosophy of Raul Prebisch in the ECLAC failed completely as similarly Singer's policies with the UN. But there is more to be said about industrial policy-making.

The theory that the state can promote capitalist development by means of a set of rational policies did not originate with the so-called Asian Tigers – economic nationalism. On the contrary, it belongs to Western economic thought, constituting one sub-field like Marxism as also another sub-field, besides mainstream classical or neo-classical approaches. Thus, one may in this tradition mention the following:

When explaining the rise of East and South East Asia to world prominence in the global market economy, Gerschenkron resorted to capitalist-statist notions. Gerschenkron argued that young economies can catch-up quicker than the development path of older economies, especially if they can master industrial-policy making, including export promotion, import substitution and direct copying of the technology of more advanced countries – the new comers' advantage.

Johnson (1984) supported the idea that countries can use industrial policies successfully, explaining Japanese economic success as the result of state intervention. The reply from neo-liberal scholars was that Japan and the other Asian Tigers had succeeded *despite* industrial policy-making by means of access to cheap capital, harsh regimentation of the labour force and lots of copying and little of productivity gains due to internal innovations (Krugman, 2008).

## **RENEWED MARXISR ECONOMICS**

John Bellamy Foster and associates have launched an attempt to renew the Marxist analyses of global capitalism, originating with Hilferding as well as Baron and Sweezy. In terms of the approach here, the neo-Marxist analysis (Foster et al, 2011; Foster et al, 2012) looks very much as the global market as a constant sum game.

Firstly, the gains from the global market economy are more and more appropriated by the financial system and its institutions, focusing upon quick profits from managing gigantic transactions in paper assets. Thus, the centre in the neo-Marxist approach is no longer the accumulation of surplus value in the real economy, the capitalist exploiting the worker. Instead, the current crisis in the EU and the US has to with a crisis of monopoly-finance [capitalism](#), and the tendency toward secular [stagnation](#) in mature capitalist economies. This reduces investment opportunities in the real economy, driving capital to seek other sources of profit through the financial economy. The construction of a "casino" economy built on increasingly complex financial mechanisms is collapsing under its own contradictions. The monopolization of the economy—when a handful of large firms dominate one or several industries—leads to an over-abundance of capital and too few profitable investment opportunities. Absent powerful stimuli to investment, modern capitalist economies have become increasingly dependent on the financial sector to realize profits.

And while the financial sector may offer a temporary antidote to stagnation, it is a solution that cannot last long.

Secondly, in the neo-Marxist analysis ecological concerns are added to the picture of global competition. Thus, the relationship between the global environmental crisis and the crisis in the capitalist economy is underlined, while also stressing the imperative for a sustainable, socialist alternative. The reinterpretation of Marx on ecology introduced the concept of "metabolic rift" and it was widely influential. Foster stated:

Developing an environmental sociology as an integral part of sociology as a whole thus requires that we reach back into past theories in order to develop the intellectual means for a thoroughgoing analysis of the present. For environmental sociology the crucial issue today is to abandon the "strong constructionism" of most contemporary sociological theory, which tends to view the environment as simply a product of human beings, and to move toward a more "cautious constructionism" that recognizes that there is a complex metabolic relation between human beings and .... (Foster, 1999, *AJS* Volume 105 Number 2: 366–405

The neo-Marxist recognition of the relevance of ecological concerns contrasts much with the policies of Communist regimes during the 20<sup>th</sup> century as well as with China's position on global warming today. Yet, it is a most timely acknowledgement that established measures on welfare like yearly rates of economic growth are defective and should be complemented by for instance ecology footprint scores on pollution of various kinds, including emissions of CO2 equivalents. When environmental costs are added to the calculation of economic growth, numbers become entirely different, i.e. lower figures overall.

The neo-Marxist analysis of global capitalism is strongly emphasizing its zero-sum aspects, economic growth being accomplished at huge environmental costs and what is left to be divided ending up with the people in the financial system to the exclusion of the poor, the unemployment and increasingly the middle classes. One may point to interesting empirical evidence for this zero-sum approach in the new index of economic welfare, taking into account the environmental run down of the globe and in combining economic growth indices with environmental sustainability indices, as well as in the clear evidence of rising inequalities the world over (Stiglitz, 2012).

Competition is modelled entirely differently by free market economists compared with Marxist inspired approaches. They see restriction upon competition as coming from outside the market, mainly through government interference, often driven by rent-seekers. The importance of regulation derives from the necessity to protect the level playing field from such outside interference. Thus, for instance innovations need to be protected by means of patents, but only for a certain period of time. Monopoly or oligopoly is only sustainable when supported by forces

outside of the market. Thus, there is a need for all the time enlarging the market so that contestability can operate. At the end of the, monopoly and cartels are self-defeating mechanisms, when there is open access to the market.

## ECONOMIC COMPETITION AS A GAME

There is no need for anti-trust policy-making, when there is open access. Governments should never engage in market governance, neither industrial policies nor welfare state regulation of minimum wages etc. The market is when left untouched from the outside perfect, i.e. moving towards the Pareto optimal equilibrium, or an optimal outcome, as prices are minimised and quantity maximised. However, its basic institutions – property, contract, open entry – must be enforced at all times in an effective manner. France, for instance, should not worry about industrial decline and loss of traditional niches.

In a global market, no firm can control all the market shares, meaning that intruders will have to be accepted. Firms that loose out can always change their niche. Or their employees can be rehired by the successful competitors. Thus, a reduction in the volume of cars produced by French car makers will be compensated by an increase in cars produced by foreign competitors, sometimes produced in France (Table 1). Global competition constitutes a variable sum game between countries where firm ownership is not an important consideration. If France in relation to China concentrates upon its comparative or competitive advantages, the Pareto optimal outcome will ensue (70, 70) with maximum trade and mutual foreign direct investments. With trade hindrances, import restrictions and protected markets, total output will be significantly lower (50, 50). Actually, given that China presents Europe with a supply choc of cheap goods, the best response is to export and invest in China, allowing China to enter Europe according to WTO rules or by means of a FTA.

Table 1. Competition as variable sum game

|                           | Country 1<br>Global expansion | Country 2<br>Domestic concentration |
|---------------------------|-------------------------------|-------------------------------------|
| Global<br>expansion       | 70, 70                        | 80, 40                              |
| Domestic<br>concentration | 40, 80                        | 50, 50                              |

There is no rationale for industrial policy, as competition leads to the Pareto optimal outcome (70, 70) that is Nash. Yet, things are of course different in reality where countries fear de-localisation or foreign penetration, especially if it results from unfair competitive strategies.

In a global market economy where the domestic economies have been more or less integrated into global capitalism, nations worry about their competitive edge. They fear that other countries will invade their home markets or capture parts of their industries in the major process of de-localisation. Thus, nations face the threat of decline from the following:

a ) Industry backbone: nations may lose their traditional niche by either export competition or de-localisation: How to protect the special features of the country competitive edge in for instance car construction, pharmaceuticals, financial services, etc;

b ) National research interests: when a country loses its competitive edge, it often implies that its knowledge advantages are also lost. Other countries close the knowledge gap quickly through copying, espionage or research upgrading at schools and universities;

c ) Employment and training: the impact upon employment from decline in competitive edge can only be negative: more unemployment. Although the intruders may pick up some of the work-force from national industries, industrial decline weakens a nation;

d ) Fiscal deficits and debt, less state revenues, more social expenditures, etc;

e ) Industrial security: the future capacity to make innovations that lead to major investments in factories and employment.

Given the interest of nations in supporting research endeavours in universities, schools and institutes, it is little wonder that governments conduct so-called research policies long-term and that governments are eager to be present when big industrial projects are contracted in other countries.

When global competition entails only the redistribution of market shares, the game is basically constant sum (Table 2). Take the example of China and France, where China is more competitive, forcing firms to relocate to China and buying up industrial assets or invading French niches. The outcome has been severe industrial decline in France with record unemployment at the same time as Chinese firms buy into French ones. The corresponding game (Table 2) is unstable, but with complete deregulation China will be the winner (70, 30).

Table 2.A. Competition as constant sum game

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|  | Country 1 | Country 2 |
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|                        |        |        |
|------------------------|--------|--------|
| Global expansion       | 70, 30 | 40, 60 |
| Domestic concentration | 40, 60 | 50, 50 |

Here, there are winners and losers from global competition over market shares. Country 2 would actually be better off, if there was no global expansion and foreign interpenetration (50, 50), but this solution is not stable.

## EUROZONE DEC LINE

As globalisation rolls on with massive changes in both economic life and the environment, one observes certain disequilibria. One of them is the decline of Europe economically at the same time as the economic centre of the world is shifting towards the East, South and South East Asia. Is there a kind of economic warfare going on behind these major developments?

When countries decline economically, they risk losing their niche in the global market economy. Typically, certain key industries or sectors of the economy face grave challenges from competition abroad. Governments need to find responses, as a loss in the comparative or competitive advantages of a country would have consequences also for the revenues of the state.

Industrial decline raises a number of questions about fair competition in the global market economy as well as calls for strategic responses from both government and the private sector. Actually, process of competition have been modelled as both zero sum and variable sum games in both the domestic economy – monopoly and anti-trust policy – and the international economy – trade wars. Today, competition is played out in one global market economy. Industrial decline may be looked upon as an external shock to the country in question.

One would have expected that the decline of the EU-land and especially the EU-zone would trigger a debate about free, fair and balanced competition at the macro level. It is hardly an exaggeration that the combined outcome of a most severe crisis in the financial economy and the supply chock in the real economy from East Asia has contributed to the emergence of a *New Colbertism*, i.e. some set of industrial policies in order to:

728 (a) protect national industries or key niches in the global market  
 729 economy;  
 730  
 731 (b) stimulate innovations that may help the EU countries in a “creative  
 732 reconstruction”.  
 733  
 734 Especially, the EU countries with a few exceptions (e.g. Scandinavia,  
 735 Slovakia, Poland) have cause to reflect over their country competitiveness  
 736 – see Table 1 with its meagre growth rates for 2007-2012.  
 737  
 738 Table 1.B. Affluence 2007-2013: GDP per capita in natural logarithms

| Year            | 2000        | 2003        | 2006        | 2009        | 2013        |
|-----------------|-------------|-------------|-------------|-------------|-------------|
| Euro area       | 10,29676803 | 10,31826437 | 10,37374466 | 10,34777062 | 10,36743418 |
| European Union  | 10,15841697 | 10,19729035 | 10,26617357 | 10,24443233 | 10,27151364 |
| Austria         | 10,46388291 | 10,48421863 | 10,55158369 | 10,55164592 | 10,59684165 |
| Belgium         | 10,43436704 | 10,45184319 | 10,51131327 | 10,49784662 | 10,5026132  |
| Bulgaria        |             |             | 8,293308491 | 8,392552653 | 8,453706835 |
| Croatia         |             |             |             | 9,268409671 | 9,25478634  |
| Cyprus          |             |             | 10,03932405 | 10,07324873 |             |
| Czech Republic  |             |             | 9,517455134 | 9,537796135 | 9,553059072 |
| Denmark         | 10,721938   | 10,72794211 | 10,79956261 | 10,73340902 | 10,74192583 |
| Estonia         | 8,85992245  | 9,078153426 | 9,338500016 | 9,22555218  | 9,39629165  |
| Finland         | 10,41081924 | 10,46441423 | 10,5665756  | 10,51853915 | 10,53679479 |
| France          | 10,3856717  | 10,40043942 | 10,4461788  | 10,41907989 | 10,43824163 |
| Germany         | 10,39397143 | 10,40142442 | 10,45803686 | 10,45392455 | 10,55298647 |
| Greece          | 9,800378472 | 9,923853262 | 10,03286187 | 10,02829026 | 9,806219835 |
| Hungary         |             |             | 9,339690672 | 9,284180291 |             |
| Ireland         | 10,64432788 | 10,73328692 | 10,81988664 | 10,72125302 | 10,71706469 |
| Italy           | 10,30468649 | 10,32068382 | 10,35447164 | 10,28679119 | 10,2533124  |
| Latvia          |             |             | 9,001597728 | 8,890621295 |             |
| Lithuania       |             |             | 9,055160076 | 9,051649923 |             |
| Malta           |             |             | 9,621412297 | 9,661607577 |             |
| Netherlands     | 10,53334301 | 10,53788228 | 10,60622012 | 10,61398094 | 10,60130185 |
| Poland          | 8,828269516 | 8,893938843 | 9,04361017  | 9,176737512 | 9,282923325 |
| Portugal        | 9,792074185 | 9,793808488 | 9,82534132  | 9,814761275 | 9,785079275 |
| Romania         |             |             |             | 8,640235013 | 8,711582112 |
|                 |             |             |             |             |             |
| Slovak Republic |             | 9,228771754 | 9,422757171 | 9,525404474 |             |
| Slovenia        |             | 9,710023911 | 9,843676348 | 9,845705537 |             |
| Spain           | 10,08250926 | 10,12902511 | 10,18520918 | 10,14588812 | 10,10940618 |
| Sweden          | 10,50715273 | 10,55765604 | 10,6587682  | 10,60990994 | 10,69559997 |
| UK              | 10,43583965 | 10,50613568 | 10,57648067 | 10,52614471 | 10,54415932 |
| Brazil          | 8,390884394 | 8,400867509 | 8,491793633 | 8,570001564 | 8,669578391 |
| India           | 6,359949634 | 6,471810753 | 6,681178141 | 6,85408637  | 7,060473154 |
| China           | 7,023098582 | 7,265115277 | 7,570294154 | 7,867549867 | 8,18406062  |

Source: World Bank (2011) World data bank: World development indicators; data available from: <http://databank.worldbank.org/ddp/home.do>

Table 1 shows the dynamic results of global economic competition, as former developing countries like China, India and Brazil catch up in short period of time, when several EU countries, especially France, experience industrial decline and increasing unemployment.

Both the US and the EU has for quite some time expressed discontent with the global competition regime, as it is practised through the WTO system. Thus, the massive job losses in the US and the EU are partly blamed upon East Asian tactics to circumvent basic principles of the global trade and investment regime. However, the resort to trade war and various forms of trade and investment hindrances would offset the counter-criticism of "*begger thy neighbour*" approaches. Competitive devaluations result in a global PD game with all losing out. Yet, holding down the value of the Chinese Yuan (*Renminbi*) artificially amounts to a form of economic warfare.

France now reflects upon *New Cobertism* as a method to save its niches and develop hopefully new competitive global industries. But as adherents of Chicago School Economics would counter: How can governments make the right choices when all the available information is present only in the markets? And Chicago School economists would not care too much about dumping, as lower prices always benefit the consumers (van Overtveldt, 2007).

As it appears from Table 2, unemployment has risen all over Europe, and especially much in Southern Europe. The EU and the ECB have not capable of responding to both the Chinese supply choc and the financial disaster from 2008 and onwards. The overall state indebtedness is simply too large for counter-cyclical policy-making and the ECB has not managed to lower the Euro.

Table 2 B. Unemployment 2006-2012

|                        | 2006       |                  | 2010       |                  | 2012       |                  |
|------------------------|------------|------------------|------------|------------------|------------|------------------|
|                        | Absolute   | % of Labor Force | Absolute   | % of Labor Force | Absolute   | % of Labor Force |
| <b>Euro area</b>       | 13 046 316 | 8,35             | 16 165 898 | 10,10            | 18 275 728 | 11,37            |
| <b>European Union</b>  | 19 651 669 | 8,22             | 23 476 521 | 9,61             | 25 778 399 | 10,49            |
| <b>Austria</b>         | 195 106    | 4,70             | 190 389    | 4,40             | 188 717    | 4,30             |
| <b>Belgium</b>         | 380 524    | 8,20             | 406 580    | 8,30             | 367 675    | 7,50             |
| <b>Bulgaria</b>        | 309 567    | 8,90             | 348 523    | 10,20            | 412 605    | 12,30            |
| <b>Croatia</b>         | 219 456    | 11,10            | 230 050    | 11,80            | 294 072    | 15,80            |
| <b>Cyprus</b>          | 24 196     | 4,50             | 36 822     | 6,30             | 70 081     | 11,80            |
| <b>Czech Republic</b>  | 367 764    | 7,10             | 382 513    | 7,30             | 369 649    | 7,00             |
| <b>Denmark</b>         | 114 389    | 3,90             | 219 822    | 7,50             | 218 584    | 7,50             |
| <b>Estonia</b>         | 41 021     | 5,90             | 116 885    | 16,90            | 69 729     | 10,10            |
| <b>Finland</b>         | 203 878    | 7,60             | 226 822    | 8,40             | 206 696    | 7,60             |
| <b>France</b>          | 2 547 306  | 8,80             | 2 774 769  | 9,30             | 2 981 599  | 9,90             |
| <b>Germany</b>         | 4 285 382  | 10,30            | 2 981 322  | 7,10             | 2 255 176  | 5,40             |
| <b>Greece</b>          | 453 811    | 8,90             | 643 588    | 12,50            | 1 219 674  | 24,20            |
| <b>Hungary</b>         | 323 184    | 7,50             | 482 774    | 11,20            | 478 227    | 10,90            |
| <b>Ireland</b>         | 94 026     | 4,40             | 303 621    | 13,90            | 318 465    | 14,70            |
| <b>Italy</b>           | 1 664 738  | 6,80             | 2 063 061  | 8,40             | 2 683 307  | 10,70            |
| <b>Latvia</b>          | 76 687     | 6,80             | 198 666    | 18,70            | 155 887    | 14,90            |
| <b>Lithuania</b>       | 86 032     | 5,60             | 274 795    | 17,80            | 202 841    | 13,20            |
| <b>Malta</b>           | 11 426     | 6,90             | 12 259     | 6,90             | 11 914     | 6,40             |
| <b>Netherlands</b>     | 337 496    | 3,90             | 398 471    | 4,50             | 475 676    | 5,30             |
| <b>Poland</b>          | 2 392 171  | 13,80            | 1 741 538  | 9,60             | 1 871 169  | 10,10            |
| <b>Portugal</b>        | 427 096    | 7,70             | 599 755    | 10,80            | 852 740    | 15,60            |
| <b>Romania</b>         | 734 852    | 7,30             | 704 679    | 7,30             | 672 146    | 7,00             |
| <b>Slovak Republic</b> | 352 878    | 13,30            | 388 765    | 14,40            | 380 134    | 13,90            |
| <b>Slovenia</b>        | 61 382     | 6,00             | 75 210     | 7,20             | 89 824     | 8,80             |
| <b>Spain</b>           | 1 879 325  | 8,60             | 4 738 440  | 20,20            | 5 935 537  | 25,20            |
| <b>Sweden</b>          | 341 252    | 7,10             | 427 600    | 8,60             | 406 594    | 8,00             |
| <b>UK</b>              | 1 716 686  | 5,50             | 2 498 329  | 7,80             | 2 576 784  | 7,90             |

Source: International Labour Organization / World Bank Data Indicators

The European economy does not seem to experience self-leaking according to the neo-liberal model, but the calls for reforms have not been much listened to, except the austerity policies (Legrain, 2014). With so much unemployment, especially among the young, the “newcomers” will soon have caught up completely – successful strategic trade and investment policies.

### **ECONOMIC WARFARE: The New Chinese Approach**

A new form of economic warfare is the entire economic penetration of one big country of another small country. In China’s broad based economic policies in several African countries, political penetration is not in the cards. But the strategic combination of these different policies leads to an undeniable predicament of economic dominance.

Behind the efforts at establishing and implementation a global competitive regime lies all the time the threat of economic warfare, which when carried to its extreme results in the predicament of the 30s – no trade at all virtually. However, the WTO system is incomplete and opaque as well as operating slowly. It is weak enough to allow for the occurrence of economic competition as zero sum games. When countries cheat on the basic rules, it is not easy to take action. And complaint at the WTO may just stimulate counter-actions from the other party. Thus, when France accuses East Asian firms of dumping the price of solar energy systems, then China puts in restrictions upon the import of luxury French wines, etc.

The incredible Chinese economic expansion since 1980 could hardly have been done without Chinese firms – public, semi-public or private, joint enterprises with the West – defeating competitors in zero sum games all over the globe with tactics that call in question the WTO principles: artificial currency depreciation, dumping, local content, bi-lateralism, infant industries or lack of national treatment, strategic investments, etc. Yet, at the same time complaints against the East Asian dynamic countries have little consequence, as the world economy is heavily dependent upon China and South Korea, Hong Kong and Singapore when they for instance sustain demand for Western products in a variable sum game (Yueh, 2013).

Complaints against China for artificially holding down its currency occur daily, but result in very little. The on-going penetration by China of several country economies in Africa should interest the West more. It is definitely a question of combining strong enterprises with state diplomacy to capture often resources that are in finite supply. There is a whole plethora of mechanisms – concessions, licenses, barter contracts, kick-

backs, etc – that may be employed to exclude competitors: e.g. Ethiopia, Sudan, Gabon, Angola, Zimbabwe, Tanzania, and Zambia. When natural resources are in finite supply, then pre-emptive strategies may be highly rewarding in the global market place. It does not matter that there is an *Ocean Market* of suppliers when the resources in question are being used up quickly, as for instance the valuable timber in Gabon (Economy and Leary, 2014).

The recent Chinese penetration of several African economies has been studied from various angles (Alden, 2007; Rotberg, 2008; Brautigam, 2011; Moyo, 2013; Chan, 2013; Jacques, 2012). The massive Chinese intervention in African economies – capital, investments, labour, innovations, infra-structure, and finance – is either looked upon as a win-win game or as a constant sum game where the winner is China and the loser the population in these countries, at least in the long-run perspective. What is problematic is the intimate collaboration with dictatorships, as the profits for the Africans may be dissipated in huge rents for the ruling family or clan. When Chinese enterprises harvest the rain forest in Gabon and provide the Bongo family with money to buy properties and assets in France: Ça sert à Quoi? In addition, there is the environmental aspect of many of these ventures, especially in oil and mining exploration.

The point here is that this Chinese penetration is less market driven and more a matter of government foreign policy. Thus, firm competition in Africa often involves a dimension of zero sum games, or conflict. We read the following statement in *African Energy*: Issue 286:

"President Xi Jinping's call for China-Africa trade to exceed \$400bn by 2020, with infrastructure investment a priority in driving that exponential increase, is a realistic target as ever more Chinese companies explore the continent's markets. China Inc made a spectacular return to African business in the last decade, with bilateral trade rising from \$10bn in 2000 to \$210bn in 2013 – an increase many times greater than even optimists in the Beijing government had planned. Officials and company executives in Beijing often comment that things have not always gone as smoothly for China Inc as envious business rivals might think."  
(<http://archive.crossborderinformation.com/Article/Corporate+China+see+ks+deeper+penetration+across+African+markets.aspx#ful>).

## CONCLUSION

Industrial policy-making is in the West not regarded as a proper response to the declining competitive edge of a nation. It is not in agreement with the policy emphasis upon a global level playing field, where there is fair competition in all countries. The WTO as well as the regional organisations

has devoted much attention to enhancing fair competition, supported by means of rules that are more or less institutionalised.

Industrial policy-making also hurts the laissez-faire idea that the global market is an *ocean* where countries can develop new niches when they lose their industrial backbone. Thus, competitive games satisfy *in principle* the notion of Pareto improvements, as theoretically speaking compensation is possible for the losers. Only single firms face elimination, as countries can seize new opportunities in the unlimited global market economy.

Yet, *in reality* countries do try to protect internally or promote externally their core industries, as they know that the call for a complete level playing field is often hypocritical. Or nations attempt to create new spheres of economic interest, like China with its broad penetration of several African economies, offering for instance infrastructure projects against payment in natural resources (Brautigam, 2011).

Thus, governments view the competitive edge of national firms both domestically and internationally with much interest, as if it were a question of a set of zero sum games. When the really big contracts about infra structure projects, oil- and gas exploration, food and agricultural products are made between firms, the corresponding governments are often present simply in order to look after the interests of their national pride enterprises. It is no small wonder that one sees campaigns like "Buy American", not only in the US but also in e.g. France, where Chinese capital is playing an increasing role, not only in the car industry but also in the classical wine production.

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