THEORETICAL EXPLANATIONS OF TRADE COMPETITIVENESS AND A NORTH AMERICAN APPLICATION

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Abstract

How do we reconcile economic competitiveness with trade regionalism? This exploratory investigation first takes stock of how competitiveness has been defined by both economists and political scientists, then extracts an inclusive model from the different literatures, and finally broadly assesses business transactions and trends across North America using that model. Beginning with the Ricardo-Viner and Heckscher-Olin explanations, various types of competitiveness articulated by Michael Porter, Mancur Olson, and David Mares are subsequently brought in. Mares's framework is then used in modified form to survey North America. Preliminary findings, presented as hypotheses for future testing, suggest that: the evaporation of hegemony has resulted in multiple claims to competitiveness across North America, policy convergences are more widespread and common than ever before, regional-level cooperation provides an efficient means for all three countries to offset global competitiveness, and domestic interests, though still a potential veto force, are slowly embracing, rather than opposing, supranational efforts.

My thanks to an anonymous reviewer for some very useful suggestions and references, and to Gustavo Acua for his timely support.
The 1980s marked the dividing line between two different trading orders: Until then, the General Agreement on Tariffs and Trade (G.A.T.T.) sought to make trade relations more free; since then, the World Trade Organization (W.T.O.) is endeavoring to make trade relations more fair. At least two inter-related developments induced this shift from the nature to the methods of trade: the slow evaporation of a hegemonic distribution of power, and with it such collective goods as one dominant currency and a single relatively open market; and the simultaneous privatization of those goods, characterized by the resort to non-tariff barriers and unfair practices. If the old problem was to liberalize trade, the new is to adjust to
competition. Yet, this begs one of the central questions in the global political economy today: What is competitiveness?

A Rapid Literary Riffle

Competitiveness is an ambiguous term as employed in the literature. Calling it a "meaningless word" when applied to a national economy, Paul Krugman nevertheless acknowledges its metaphorical or rhetorical value in generating public images and altering policies affecting the international context. Others interpret global competitiveness in terms of specific elements. Ronald Reagan's Commission on Industrial Competitiveness and Jeffrey A. Hart, for instance, isolate three of them: the capacity to design, produce, and distribute goods and services in the global market at the most efficient prices; the fairness and freedom under which these operations are conducted; and ultimately the ability to enhance real domestic incomes. An interplay of decisions taken by both firms and states seems to be a fundamental component of any definition. In postulating competition state theory, yet others pay more attention to those decisions, in particular to emphasizing competitive strategy, that is, "a set of policies . . . explicitly aimed at improving the climate for business . . ." It fills a void in explaining the multitudinal set of post-Cold War developments confronting the state—not just in relations with other countries, but also in aggregating domestic preferences.

A study of competitiveness, then, must first spell out the criteria of measurement—globally these could, for instance, be trade balances, export shares, rates of productivity growth, rates of real wage growth, price elasticities, and so forth—then differentiate between the unit being analyzed—the product itself, the firm, industry, sector, or country involved, or simply some combination of two or more of these. As such, any understanding of competitiveness can be, at best, partial, episodic, and above all a reflection of many complications. Fortunately, several groundbreaking works facilitate our comprehension.

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8. See Paul Krugman, "Competitiveness, a dangerous obsession", Foreign Affairs 73, no. 2, March-April 1994, pp. 28-44.


11. Ibid., pp. 36-39.
Empirical Focus

This study borrows a handful of theoretical postulates or paradigms to assess very broadly the nature of competitiveness in North America. From 1994, this region implemented the North American Free Trade Agreement, bringing together three countries, quite asymmetrical in their economic development as well as policy influence, to search for a common economic future. The obvious question arises as to what extent competitiveness in a wide variety of business operations will favor or hinder one member over the others. A broad, suggestive exploration is conducted, but first the theoretical expectations are spelled out.

Methodology

From the wide array of overlapping explanations outlined below, a broad and flexible model of competitive behavior is derived, which is then used to compare and contrast the three North American countries in terms of a series of actual or potential business transactions. This, in turn, generates several hypotheses for future testing. The key variables of that model are largely extracted from the theoretical explanations which follow.

Trade Policy Outcomes and Theoretical Explanations

Background

As a working definition, international competitiveness simply refers to making a product or service available in the market at a lower price than others. Figure 1 specifies the key elements involved, indicating the interplay of both economics and politics in determining competitiveness. Discussed first are a string of economic explanations—the Ricardo-Viner and Heckscher-Olin, as well as the integrated- and segmented-economy approaches—then interpretations highlighting three different units of analysis—Michael Porter's industrial competitiveness, Mancur Olson's national, and David Mares's product, respectively.

Economic Explanations

The Ricardo-Viner and Heckscher-Olin paradigms, and the integrated- versus segmented-economy approaches, are widely used for explanations and fairly representative of the relevant literature. Table 1 profiles the key characteristics of the two paradigms, Table 2 the various modifications of Heckscher-Olin, and Table 3 the approaches.
Figure 1

Elements of Competitiveness

Demand Side

- Individual Preferences
- Interest Groups
- Trade Policy Outcomes

Supply Side

- Institutional Structures of Government
- Policy-Makers Preferences


### Table 1

<table>
<thead>
<tr>
<th>Models</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Ricardian</em></td>
<td>Both countries gain from trade even if one has comparative advantage in the goods trade if the labor-input ratio varies: labor seen as mobile domestically, immobile globally.</td>
</tr>
<tr>
<td><em>Ricardian-Viner</em></td>
<td>adopts 1-factor model (mobile labor) and adds various sector-specific factors (technological inputs, which are also mobile).</td>
</tr>
</tbody>
</table>

*Ricardian-Viner* foundation of modern trade theory: correlates exogenous factor supplies and product prices with endogenous factor prices, output levels, and consumption levels—creating six sets of partial determinants of trade. Four have been formalized:

a. Rybczynski theorem: connects output levels with factor supplies:
Heckscher-Olin

b. Stolper-Samuelson theorem: connects factor prices with product prices;
c. Factor Price Equalization theorem: connects factor prices with factor supplies; and
d. Heckscher-Olin theorem: connects factor supplies with output levels and consumption levels.

David Ricardo’s famous treatise on comparative advantage in 1817 still influences trade analysis today. Using labor costs in different countries, he elegantly shows how even if two countries produce the same two commodities, both would be better off if each concentrated on one commodity—the one that employs fewer workers to produce one unit than in the other country or for the production of one unit of the other good: costs would be lower and trade enhanced. The elegance of this explanation obscures the obvious weakness: Few, if any, national economies are so basic today. To partly offset this handicap, Jacob Viner over one century later incorporated the variable of technological inputs: Whereas Ricardo’s economy uses only one mobile factor of production—labor—Viner adds another, thus permitting explanations of a more dynamic economy.12

More relevant for today’s highly complex economy is the Heckscher-Olin paradigm, developed between the two world wars. What it does in essence is to convert external factors of production and prices into internal factor prices, output levels, and consumption levels. As many as six correlations are possible, of which four have received considerable attention in the literature: the Rybczynski theorem, connecting levels with factor supplies; the Stolper-Samuelson theorem, connecting factor and production prices; the factor price equalization theorem, connecting factor prices and supplies; and the Heckscher-Olin theorem, connecting trade with factor supplies.13

Of these, the first two have direct and noteworthy implications for competitiveness, while the third is derivable from the first. The fourth has received the most extensive contemporary treatment in the literature, resulting in a variety of manifestations—many of which, outlined in Table 2, are discussed further.

The Rybczynski theorem explains the relationship between changes in factor endowments, such as labor, and changes in production patterns. Several implications follow: (a) concurrent factors of production, not historical, become more pertinent;
(b) that relationship is linear; and (c) changes in the supply of factors, such as labor, do not commensurately change prices of those factors.

**Table 2**

Modifications of Heckscher-Olin Paradigm

<table>
<thead>
<tr>
<th>Functions</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Tariff-formation function</td>
<td>*Links a trade policy instrument (tariff) to amount of lobbying resources utilized by affected group.</td>
</tr>
<tr>
<td>*Political-support function</td>
<td>*Policy makers trade off between (a) an interest group’s pressure that s/he is sympathetic to, and (b) the efficiency of restricting trade.</td>
</tr>
<tr>
<td>*Median-voter function</td>
<td>*This direct-democracy function determines tariff on the basis of voting of the population: the median voter’s preference becomes the tariff rate.</td>
</tr>
<tr>
<td>*Campaign-contribution function</td>
<td>*Two strands here: campaign contributions of lobbies determine (a) the successful political party in elections, and (b) the policy position of the government.</td>
</tr>
</tbody>
</table>

The Stolper-Samuelson theorem is more politically charged owing to the elements being connected—factors of production and prices. Generally, it has a zero-sum slant: As one goes up, the other comes down, implying that every price change creates both winners and losers. The implications are more meaningful: (a) businessmen and workers of any given industry oppose each other over the trade policy preference for that industry; (b) nationally, neither group will support two different trade policy preferences—either protectionism or liberalism, but not both; and (c) the two groups will oppose each other regardless of whether the industry is export-oriented or import-substituting.

In relating the supply of factors of production—labor or capital—with output and consumption levels, the Heckscher-Olin paradigm may be decomposed into four different functional patterns, as shown in Table 2. The first connects tariff levels to the expenditures paid by the affected group: the higher the bribe or reward, the
higher the tariff level is expected to be—in the process altering significantly the natural competitiveness of the product, firm, or industry. The political-support function is different: the internal group’s influence is modified by other considerations elected officials may be obligated to, for instance, expanding the national economy which may not be possible given the interests of vested groups. An even broader modification than the elected official’s dual considerations may be the multiple considerations of the typical voter, captured by the median-voter function. How the average voter feels about tariffs is important in a democracy; even more important is how that preference is made policy—again, possible only in a true democracy. Finally is the campaign-contribution function, which parallels the tariff-formation function. Whereas the latter pays attention to long-term payments of pressure groups to elected officials, the former focuses more on short-term payments, that is, the contributions made largely during election campaigns and not always to an elected official seeking another term.

Competitiveness is affected differently by the four functions: The median-voter function probably impinges less on natural competitiveness, since the typical voter prefers lower consumer prices more than opposes lower wages due to the firm’s decision to scale production back, and the tariff-formation function probably impinges the most, since that is the explicit purpose of affected groups, which are usually small but highly organized, and thereby more influential over policy outcomes. The political-support function, by definition, is closer to imposing minimal restrictions than maximal upon competition, while the campaign-contribution function could go either way, depending perhaps less on the strength of group interests than on the state of the economy at any given time, for instance.

It is but one short step from the various paradigmatic explanations to the two approaches outlined in Table 3. As the term implies, the integrated economy approach is associated with the absence of national boundaries and other artificial barriers, the segmented economy approach is not. Five implications may be drawn from the former: (a) monopolistic behavior is not irregular; (b) economies of scale and comparative advantage provide incentives to trade; (c) factors of production are free and mobile, and specialization is an inherent drive; (d) intra-industry trade, external economies, non-traded and intermediate products, and multinational enterprises are all features common to this approach; and (e) the Heckscher-Ohlin-Samuelson paradigm has become central to explaining this approach.

There are, at the same time, limitations to the integrated-economy approach: (a) a segmented economy is necessary for an integrated economy to function because of irregularities and imperfections in competitiveness; (b) it does not reflect reality: differences in factor endowments prevent price equalization, so fundamental to an integrated economy; (c) differences in production functions in various parts of the

14 Paul Krugman, "Increasing returns, imperfect competition and the positive theory of international trade", in Handbook of International Economics, pp. 1245-1271.
world make it difficult to create an integrated economy; and (d) trade does not replicate an integrated economy since wages are not equalized in the first place.

Among the merits of the segmented-economy approach are the following: (a) high transportation costs may make it more efficient than an integrated-economy for some products or parts of the world; (b) it is more investment-creating than trade-creating, which is better for jobs and less harmful for protected industries, firms and industries; (c) in turn, we learn more of location theory and theories of regionalism; and (d) better economic management is ensured since the pie is smaller and distribution is more a personalized issue.

Table 3

Approaches to Examining Economic Competitiveness

<table>
<thead>
<tr>
<th>Approaches</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Integrated-economy</td>
<td>*Equalization of prices for goods/factors/resource allocation</td>
</tr>
<tr>
<td></td>
<td>*Helps explain H-O model, intra-industry trade, external economies, non-trade and intermediate goods, and multinational corporations</td>
</tr>
<tr>
<td></td>
<td>*Explains why economies of scale and comparative advantage motivate trade</td>
</tr>
<tr>
<td></td>
<td>*Wages not equalized through trade: trade cannot reproduce integrated economy</td>
</tr>
<tr>
<td></td>
<td>*Factor prices not equalized if factor endowments differ greatly between various parts of the world</td>
</tr>
<tr>
<td>*Segmented-economy</td>
<td>*Compels us to recognize that market access is important: the larger the distance, the higher the costs of transportation, and the lower the trade flows</td>
</tr>
<tr>
<td></td>
<td>*In turn, we are alerted to location considerations, hitherto ignored by trade theorists: market-size, market access, and transportation costs may be just as important as economies of scale</td>
</tr>
</tbody>
</table>
Unit-centric Explanations

Three sets of arguments bearing directly or indirectly upon competitiveness, of the several available, identify different units: Michael Porter's industrial, Mancur Olson's national, and David Mares's product or firm. As will become evident though, no matter which specific unit is adopted, several other units are ultimately impacted. Discussions follow in the order presented.

Porter’s Industrial Competitiveness

A country's competitive advantage, according to Porter is determined almost entirely by the competitiveness of its industries—his central unit of analysis. He uses a crisscrossing diamond of determinants to explain a country's competitiveness. The four sets of determinants are exclusively economic and industry-based:

a. Factor conditions: included here are skilled labor and the infrastructural development of the country.

b. Demand conditions: the length, breadth, and depth of domestic demand for each industry.

c. Related and supporting industries: essentially an assessment of the inputs and outputs of each industry, this determinant reflects how easily and efficiently inputs are acquired and outputs are made available to final consumers.

d. Firm strategy, structures, and rivalry: how firms are created, organized, and managed, as well as the nature of domestic competition are grouped under this heading.

Defining industry as "a group of competitors producing products or services that compete directly with each other," Porter argues that it is at this level "in which competitive advantage is won or lost." The strategy chosen is the key to industrial competitiveness, and involves two dimensions within which are a number of other specific interacting considerations:

Industry Structure:

a. Rivalry among existing competitors.
b. Threat of new entrants.
c. Threat of substitutes.

\[\text{Ibid., pp. 33.}\]
\[\text{Ibid., pp. 34.}\]
\[\text{Ibid., ch. 2.}\]
d. Bargaining power of suppliers.
e. Bargaining power of buyers.

Positioning Within Industry:

a. Competitive advantage: determined in terms of lower cost and quality/service differentiation—two considerations that cannot always be pursued simultaneously, necessitating not only constant trade-offs, but more importantly, the most efficient trade-off.

b. Competitive scope: should the breadth of the firm’s production and target market be broad or narrow is a decision which ultimately determines the generic strategy adopted—and there may exist several variations to that generic strategy within the same firm.

Olson’s National Competitiveness

In an influential work, Mancur Olson hypothesized that the rise and fall of countries are dictated by certain characteristics of domestic societal groups and the interest mediation pattern. His basic argument is intuitive: the provision of a public good by any group or government—a public policy, for example—encourages free-ridership, which, in turn, makes that good increasingly costly and progressively unviable. The problem could be nipped through selective incentives, which could be benefits accruing from group membership upon certain payments, or taxes to the government. Taking society as a whole, the costs of group activities and public policies represent an increasing function over time—thus converting the benefits of being competitive steadily into a liability.

Important implications are derived by Olson from this argument:

a. The more stable a society with unchanged national boundaries, the more collusions and collective actions are likely over time, generating added costs.

b. The smaller the societal groups, the less the added future costs; and the larger it gets, the more those expenses.

c. The more encompassing those groups, the more likely they will cease providing the public good when social costs increase; and conversely, the more specialized those groups, the more likely the costs will increase and society become more divided.


20 Olson, Rise and Decline, ch. 2.

21 Ibid, ch. 3.
d. Distributional coalitions are conservative, encourage government involvement in redistribution, resist changes and innovations, and produce increasing inefficiencies.

Even though Olson's arguments inform us about the competitiveness of countries, much like Porter's, he relies upon multiple levels of analysis. One difference between them is that Porter highlights the external and Olson the internal implications of the competitiveness they describe. This shifts the analysis of product competitiveness to the global level for Porter, and the analysis of national competitiveness to the domestic level for Olson. Both show how an analysis of any type of competitiveness eventually involves several levels, dimensions, and variables. Mares's arguments, model, and observations confirm this, but also offer a more comprehensive than segmented framework for analysis.

Mares's Product Competitiveness

Mares interprets competitiveness in terms of the product itself, but from the viewpoint of several levels of analysis. Product competitiveness—which product in any one category has a lower sales price-tag over other products in that same category—exerts some influence, as his model predicts, in generating trade disputes. Oftentimes the free-market sales price may be distorted by government subsidies in order to enhance exports, and any such support may reflect the pressures from concerned societal groups, or the position of the political party in power, and so forth. That competitiveness is a multifaceted phenomenon with many determinants is well portrayed in his argument. Yet, not every determinant will exert identical impact on any given product; not every determinant will be equally important to every product; and not every determinant will have the same force in every country. This too is brought out by his argument. Figure 2 presents the Mares model, using three levels—local, national, and international. It has the merit of reducing components to a bare minimum, offering considerable parsimony without losing any important detail.

Figure 2
Three-Level Explanation of International Competitiveness

Local Level
Resource Utilization:
Mother ←→ Production Process

National Level
Interest Intermediation:
State ←→ Society

International Level
Economic Competitiveness:
High ←→ Low
Political Openness:
High ←→ Low

International Competitiveness

The Local Level

The local level refers to the arena where the good is produced—in the farm if it is agricultural, or the factory if it is manufactured, and so forth. Several factors influence output and competitiveness at the place of production. One could be geological, a key consideration for any agricultural or mineral product. Another could be biological, imperative to evaluate if the targeted consumers are, for example, weight watchers. A third could be cultural, understanding why groups of people will accept some food items, and not others. A final consideration could be economic, almost always expressed in terms of the production function: Will labor costs be more inexpensive in Location B than in Location A? Will infrastructural supports be more costly or less in the former? The list goes on. Although Mother Nature dictates to a large extent the degrees of output and competitiveness at this level, human resources, such as capital and knowledge, also influence greatly the production function.

The National Level

The second level is the national level, that is, the arena where policies affecting the domestic society are formulated and implemented. It is at this level that state-society bargains are played out and all the influences exerted upon policy-making resolved. As far as international competitiveness is concerned, therefore, decisions impacting the allocation of national resources, for instance the degree of subsidies, and thereby the degree of openness of trade, are determined.

The International Level

The degrees of both economic competitiveness and political openness affect market structures at the third arena, the international level. Whereas the former involves decisions over product homogeneity, the latter depends upon the decision of the country to liberalize trade or not. Both may be a function of at least four factors: the security of supply, especially for raw materials or goods with an inelastic demand; general foreign policy concerns; domestic politics; or ideological considerations. As becomes evident, although this arena is affected by policies made at the national level, the direct impact expected is on the international system.

Competitiveness in North America

Mares's model incorporates arguments of Porter, Olson, and Heckscher-Olin which bear upon competitiveness. Various dimensions are formulated at each of the three
levels of global product competitiveness to compare Canada, Mexico, and the United States. Table 4 outlines the discussions to follow. All observations, interpretations, and conclusions are being presented as hypotheses, useful for future testing.

**Local Level**

At the local level, to recall, global competitiveness is influenced by product characteristics; and since the supply of many of those characteristics are naturally controlled—geology, biology, culture—the characteristic most susceptible to human manipulation, the production function, turns out to be the most critical. One of the major components of the production function is foreign investment: shifts of this resource directly affects the degree of competitiveness. This is one of the two dimensions singled out for comparison. The other is the multifaceted process of integration, an appraisal of which is made in terms of the broad policies affecting the agricultural, manufacturing, and services sectors. Policies are being identified as a crucial agent of integration, among other factors, and the issue at stake is whether the local arena has been integrated into the national, regional, and global arenas through policies. Integration efforts also impinge upon competitiveness.

Although foreign investment has not played a role in shaping agriculture for Canada and the United States, it has been influential in both initiating and enhancing commercialized farming in Mexico.\(^{23}\) However, while the presence of foreign investment has contributed to eventually making Mexican farm goods competitive in global markets, its absence in Canadian and U.S. agricultural output does not mean that farm products from the two North American countries are not competitive, it means simply that the farm sector has developed using domestic capital in both countries. At the same time, it is only of recent that Mexican farm products have posed any threat to similar products grown elsewhere,\(^{24}\) especially in the United States. Even this threat may be short-lived, as domestic demands are projected to soon outstrip domestic production.\(^{25}\) Foreign investment has also been instrumental for products in the manufacturing sector in all three countries, and for the trade in services, especially financial and managerial, for each of the three countries.

\(^{23}\)For an excellent account of the genesis of foreign investment in Mexican agriculture, see Mares, *op. cit.*


### Table 4

**International Product Competitiveness:**
Comparing Determinants in North America

<table>
<thead>
<tr>
<th>Selected dimensions at the three levels</th>
<th>Canada</th>
<th>Mexico</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Local</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Foreign investment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. manufacture</td>
<td>b. Y</td>
<td>b. Y</td>
<td>b. Y</td>
</tr>
<tr>
<td>c. services</td>
<td>c. Y</td>
<td>c. Y</td>
<td>c. Y</td>
</tr>
<tr>
<td>2. Integration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Agriculture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. regionally</td>
<td>b. N</td>
<td>b. Y</td>
<td>b. N</td>
</tr>
<tr>
<td>c. globally</td>
<td>c. Y</td>
<td>c. N</td>
<td>c. Y</td>
</tr>
<tr>
<td>B. Manufacture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. regionally</td>
<td>b. Y</td>
<td>b. Y</td>
<td>b. Y</td>
</tr>
<tr>
<td>c. globally</td>
<td>c. Y</td>
<td>c. Y</td>
<td>c. Y</td>
</tr>
<tr>
<td>C. Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. regionally</td>
<td>b. Y</td>
<td>b. Y</td>
<td>b. Y</td>
</tr>
<tr>
<td>c. globally</td>
<td>c. Y</td>
<td>c. Y</td>
<td>c. Y</td>
</tr>
<tr>
<td>Selected dimensions at the three levels</td>
<td>Canada</td>
<td>Mexico</td>
<td>United States</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>--------</td>
<td>--------</td>
<td>---------------</td>
</tr>
<tr>
<td>*National *Pattern of interest mediation</td>
<td>neo-consociationalism</td>
<td>corporatism</td>
<td>pluralist admixture</td>
</tr>
<tr>
<td>2. Key force in interest mediation?</td>
<td>elites of grand coalition</td>
<td>political elites using the state</td>
<td>competitiveness of societal groups</td>
</tr>
<tr>
<td>3. Authority over forces at local level?</td>
<td>M</td>
<td>Y</td>
<td>M</td>
</tr>
<tr>
<td>4. Underlying structure of domestic economy?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. 1945-1985</td>
<td>a. liberal market economy</td>
<td>a. import substitution</td>
<td>a. liberal market economy</td>
</tr>
<tr>
<td>b. 1985-1995</td>
<td>b. integrate along regional lines</td>
<td>b. export-led growth</td>
<td>b. integrate along regional lines</td>
</tr>
<tr>
<td>5. Trade policy orientation being altered by change of ruling party?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Selected dimensions at the three levels**

<table>
<thead>
<tr>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. For 1945-1985:</strong></td>
</tr>
<tr>
<td>a. trade policy orientation:</td>
</tr>
<tr>
<td>i. agriculture</td>
</tr>
<tr>
<td>ii. manufacture</td>
</tr>
<tr>
<td>iii. services</td>
</tr>
<tr>
<td>b. key instruments relied upon for trade:</td>
</tr>
<tr>
<td>b. domestic stabilization programs</td>
</tr>
<tr>
<td><strong>2. For 1985-1995:</strong></td>
</tr>
<tr>
<td>a. trade policy orientation:</td>
</tr>
<tr>
<td>i. agriculture</td>
</tr>
<tr>
<td>ii. manufacture</td>
</tr>
<tr>
<td>iii. services</td>
</tr>
<tr>
<td>b. key instruments relied upon for trade:</td>
</tr>
<tr>
<td>b. supply management; domestic stabilization programs</td>
</tr>
</tbody>
</table>

**Legend:**

M: mixed  
N: no  
Y: yes
Specific national policies have been central in integrating the agricultural, manufacturing, and services sectors in all three countries. Although they may also facilitate integration at regional and global levels, among other factors, they have not had the same degree of success at either regional or global levels. Only Mexico has witnessed farm integration at the regional level, and only because a large proportion of the foreign investment originates in the United States. At the global level, however, Mexico is not an important agricultural player, which is why integration at this level has not been an issue. Canada and the United States, however, are major players at the global level on account of their significant worldwide trade.

Both have also integrated at this level through national developmental experiences, as well as supranational undertakings, for example, farm agreements in multilateral agencies, at first through the Uruguay Round of G.A.T.T., then the World Trade Organization provisions. Such non-national agents at the regional level include farm provisions of N.A.F.T.A. However, since full regional integration of agriculture is not expected until the year 2008, it is too early to tell if the gaps and fissures between Canada and the United States, for example, are being eliminated.

Except for agriculture, integration in the manufacturing and services sectors across North America seems to have been fairly successful thus far. In terms of manufacturing, Canada and the United States have long been involved in joint production, with the 1965 Auto Pact as but one obvious indication, while Mexico and the United States, also from that same year, have had considerable transnational linkages through the maquiladoras under the Border Integration Program. In only the bilateral relation between Canada and Mexico there has not been sufficient interaction to highlight integration of the manufacturing sectors. The services sector represents a similar picture, with large flows of U.S. financial and managerial resources into both Canada and Mexico, and on a lesser scale from Canada to the United States and Mexico. The United States has also played a critical role in formulating stabilization programs for Mexico, such as the Baker and Brady plans of

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the 1980s and the bail-out program of 1995. However, the services sector is more complex than presented here, simply because it contains so many more activities—transportation, telecommunication, insurance, property rights, and so forth. To some these are very contentious issues in trade, as the Uruguay Round demonstrated. To others, the services sector, as it relates to trade, has been overblown in importance.

National Level

Six dimensions are being singled out at the national level for comparative purposes, each bearing upon global product competitiveness, and reflecting various arguments of Porter, Olson, Mares, and Heckscher-Olin: pattern of interest mediation; the key force in interest mediation; authority over forces at the local level; the broad targets sought or attained in domestic development; whether the trade policy orientation changes every time the ruling party changes; and shifts in interest mediation pattern between 1945-1985 and 1985-1995.

The dominant pattern of interest intermediation in Canada is neo-consociationalism, in Mexico corporatism, and in the United States a pluralist admixture. Interest mediation reflects an exchange, unequal though it may be,
between state, on the one hand, and societal groups, on the other, under both neo-consociationalism and corporatism. In a pluralist society, groups compete to influence policy outcomes and, through elections, the interests of state institutions. Under neo-consociationalism the state is more of an arbiter, though one with vested interests. The state performs different tasks in each type of society: Under consociationalism, it is more of an arbiter, but with its own preferences. Under corporatism, it plays a dominant, deterministic role, based on its own interests. For a pluralist society, the typical exchange involves groups and legislators if the goal is to create policy, or groups and administrators if the goal is to influence the program to be implemented. Here, too, the state plays the role of an arbiter, reflecting arguably less vested interests.

In terms of the three interest mediation patterns just identified, the dominant force in interest mediation in Canada, Mexico, and the United States are elites of a grand coalition, political elites defining the interests of state, and the competitiveness of societal groups, respectively. All three forces constrain product competitiveness, though in quite different ways. The very process of being inclusive in a grand coalition compromises efficiency, since segments are drawn together for political reasons, and not economic. Statism in Mexico is also driven to a large extent by political reasoning, and one economic consequence of it is nationalization of various productive sectors to satisfy the sentiments of sovereignty or patriotism. As the recent global surge towards a freer market suggests, the public sector has not proved to be as efficient as the private sector in both the short-term...


On the roles of culture and values, see Roderic Ai Camp, Politics in Mexico, New York, Oxford University Press, 1996, 2nd ed., chps. 3-6.
and the long. In the United States, the competitiveness of social groups is a political process and should not be mistaken as enhancing competitiveness. Given the background of a plural society, influencing public policies in the United States has oftentimes resulted in logrolling, that is, one uncompetitive sector supporting other quite unrelated, uncompetitive sectors through their elected officials, or government involvement through stabilization programs and subsidies-nationalization by other means, in essence. Which one of these forces exerts the most constraint is an empirical question for other studies to investigate.

Authority over forces at the local level, the second dimension, simply asks if policies formulated at the national level alone determine the interplay of forces at the local level. The question is better understood from the point of view of the federalism-centralization debate. Although all three countries are declared federalists, the nature of federalism is quite different. In Mexico the federating units have far less authority and autonomy over policy-making than the federating units in Canada and the United States. The result is a far more centralized Mexico than the other two North American countries. Policies made in Mexico City have more authority at the local level than counterpart policies in Canada and the United States, where provinces and states have specific policy jurisdiction that federal-level policies cannot intrude upon or override. In recent years, Mexico too is decentralizing several policy areas, such as the environment. However, compared to Canada and the United States, it still remains more centralized. Centralization may or may not contribute to product competitiveness, depending upon the country in question, the instance involved, and several other socio-economic and political considerations. On the one hand, it prevents ambiguities and overlapping policymaking; on the other, it may result in creeping bureaucracy, or relative regional deprivation, and so forth. In Mexico, for instance, centralization is associated with a heavy concentration of not only people in Mexico City, but also financial outlays, educational facilities, infrastructural projects, and so forth.

The third dimension is the underlying structure of the domestic economy, as reflected through policy choices. To account for shifts in the structure, the post-World War II period is divided into two phases, the first until 1985, the second since. Perhaps the most fundamental change during this period was in Mexico,
which underwent vigorous import substitution industrialization from the 1930s to
the 1970s, but from the 1980s pursued with increasing determination a pattern of
export-led growth. Of course, this latter strategy climaxed with membership in
G.A.T.T. from 1986 and N.A.F.T.A. from 1993, both outward-looking goals
prompted, in part, by the high-costs of inward domestic development. One
consequence, therefore, was to substitute high-cost production for low-cost,
competitive output. Canada and the United States also experienced some underlying
shifts during this period, perhaps in a less dramatic way. Both pursued a liberal
market economy after World War II, the only difference being the degree of
openness extended to the various sectors. In both countries, agriculture was the least
open sector, an area of more competitiveness than complementarity for the two
countries. For the United States, the manufacturing sector was the most open after
World War II, while for Canada, with a relatively smaller economy than its neighbor
to the south, there were both more safeguards and vulnerabilities, as global
competitiveness increased. However, both countries sought to integrate their
economies into the global markets right after World War II, unlike Mexico. By the
1980s, as Mexico began its outward orientation, Canada and the United States
retreated from full-fledged commitments to global-level liberalism and restructured
their economies along regional lines.

Several factors may have caused Canada and the United States to shift the
policy orientation. First, the lack of success at the Uruguay Round during the
1980s climaxed the frustration the United States was facing with the G.A.T.T.
organization, in the 1980s over agriculture and against the European Community in

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41 See U.S. Congress, Office of Technology Assessment, U.S.-Mexico Trade, Pulling
2.

42 Discussed in Theodore H. Cohn, "The changing role of the United States in the global
agricultural trade regime", World Agriculture in GATT, International Political Economy Yearbook,

43 See Andrew F. Cooper and Richard Higgot, "Australian and Canadian approaches to the
Cairns Group, Two-level games and the political economy of adjustment", Avery, op. cit., pp.
121141, esp. 136-138.

44 See John M. Page, Jr., "Trade policies in Mexico", in National Trade Policies, Handbook

45 Canadian responses highlighted in Linda Chase Wilde, Kurt K. Klein, and Joseph I.
Richter, "Bilateral negotiations in the context of GATT rules", Canadian Agricultural Trade,
Disputes, Actions and Prospects, George Lermer and Klein, (eds.), Calgary, AL, University of

U.S. responses articulated systematically by Bhagwati, op. cit., 1989, pp. 439-479; and

46 For an enlightening overview, see Gilbert R. Winham, Trading With Canada, The
Canadian-U.S. Free Trade Agreement, New York, Priority Press for Twentieth Century Fund, 1988,
ch. 2.
particular. Canada, too, was exasperated at the barriers in penetrating the European Community farm market, which led it to join the Cairns Group to pressure for farm liberalization. Second, the U.S. may have sensed it would exploit its comparative advantage in agriculture more effectively in the 1980s through liberalization than it could the other sectors, and thereby offset mounting trade deficits. By the 1980s, it had lost comparative advantage in several manufacturing industries. Perceiving all kinds of trade-related threats, it retaliated aggressively through Section 301 of the Omnibus Trade and Competitiveness Act of 1988, originally of the Trade and Tariff Act of 1974—a maneuver which raised concerns in Canada. Canada, among other countries, sought to avoid a high-cost trade-war with the United States, and reluctantly embraced a mutual ceasefire. The Canadian-United States Free Trade Agreement of 1988 marked the formal opening of a regional trade flank to what still remained by and large a liberal economic infrastructure.

One more dimension listed in Table 4 at the national level is the possibility of the trade policy orientation being altered because of a change in the party in power. Such a change was very characteristic of the United States prior to World War II, when a Republican administration automatically meant protectionism, and a Democrat trade liberalism. After World War II, however, the trade policy orientation has not shifted, at least until 1995, regardless of the party in power, although the Congress elected in November 1994 is the most introverted since the elections of 1948. Some attribute this to the creation of trade-making institutions and the delegation of authority to them over time. Shifts of the party in power has not resulted in any profound reorientation of Canada's trade policy either. In Mexico, where one party has been in power from 1929, a protectionist trade policy orientation gave way in the 1980s to liberalism simply because the P.R.I., the party in power, itself changed its own trade policy preference. As a result, although product competitiveness may be directly enhanced for Mexico, any decline on the

50 See Murray G. Smith, "Trade policies in Canada", in National Trade Policies, pp. 215-238.
part of Canadian or U.S. product competitiveness cannot be attributed to only the
shift in trade policy orientation or party preferences.

The final dimension asks if the historical pattern of interest mediation is
changing because of trade policy changes currently underway. Although a definitive
response is impossible for such a fluid variable, in Mexico and the United States
there are evidences of such shifts—in Mexico towards a pluralistic network, in
the United States by the very nature of pluralism to constantly adapt. Mexico's
privatization efforts and trade openness may be two reasons why the corporatist
structures are loosening up, but the dust has not settled yet, or is expected to for
quite some time, as to make a definitive comment. Canada's pattern, on the other
hand, survives robustly because of conflicts in other areas—political, linguistic,
territorial: Too many minority groups are dependent upon coalition-based
networking to accommodate major changes.

International Level

At the international level of product competitiveness, two dimensions are discussed
over two time phases. The first of those phases is from 1945 to 1985, the second
from 1985 to 1995. The two dimensions are trade policy orientation and the key
instruments relied upon for trade purposes.

As alluded to in the previous section, the trade policy orientation during the
first period was one of relative openness for Canada and the United States, and one
of relative closure for Mexico. These orientations were consistent with the
underlying domestic economic structure of a relatively liberal market for Canada and
the United States and import substitution industrialization for Mexico. With the
shifts that took place in the domestic economy for all three countries, the trade
policy orientation of each after 1985 became more open—a significant restructuring
of the Canadian economic and trade policy orientation, a dramatic about-turn for
Mexico, and significant for the United States in that agriculture was up for
liberalization for the first time ever. Consistent with these changes were the

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53 For more on this point, see Grindle, *Challenging the State*, ch. 1, esp. 3-7.
54 For a fine treatment of the issue, see Cohn, *International Politics of Agricultural Trade*,
ch. 2.
56 See Bruce Campbell, "Restructuring the economy, Canada into the free trade era", in *The
Political Economy of North American Free Trade*, Ricardo Grinspun and Maxwell A. Cameron,
(eds.), New York, St. Martin's Press, 1993, pp. 89-104.
57 See Edgur Velasco Arregui, "Industrial restructuring in Mexico during the 1980s", in *ibid.*,
163-176; and Judith Teichman, "Dismantling the Mexican state and the role of the private sector", in
*ibid.* pp. 177-192.
58 See Robert L. Paarlberg, "Why agriculture blocked the Uruguay Round, evolving
primary instruments used for trade purposes. Before 1985, both Canada and the
United States relied on the less trade-distorting domestic stabilization programs for
sensitive industries and supply management, in particular for agriculture. Mexico
relied upon very steep tariffs. In addition, the United States also relied upon the
principles of multilateralism, as embodied in G.A.T.T., and in particular on
reciprocity. Since the 1980s, all three countries have relied on domestic
stabilization programs and a variety of managed trade measures. In Canada, for
instance, supplies of particularly sensitive farm products are managed by marketing
boards; and in the United States, macroeconomic management has impacted trade,
such as the high dollar value in the 1980s adversely affecting trade balances and
currency exchange rates globally. For the United States, there also seems to be a
slow retreat from the principles of multilateralism, with reciprocity now being
sought through bilateral and regional arrangements, while it is resorting
increasingly to the use of trade sanctions, embodied in Section 303 of its trade
policy.

Conclusions

A number of concluding remarks bearing specifically on North American
competitiveness are presented first, leaving the broader comments for the subsequent
section.

First, the obvious finding is that no single country in North America holds a
monopoly in competitiveness—an unsurprising result given the ambiguities in
defining what competitiveness really means. Except for agriculture, every country is
equally attractive for both investment and regional integrative efforts, but for
different reasons—Mexico, for instance, because of lower wages, Canada and the
United States for superior endowment and/or infrastructure in specific lines of
production. Such a network of potential complementarity rather than actual
competition is an ideal recipe for regional arrangements but also for dependency.

Second, although domestic vested interests remain a potential short-term
threat to supranational integration, the long-term shows each country liberalizing

59The original and classic treatment of reciprocity as a trade issue is to be found in Henry J.
Tasca, The Reciprocal Trade Policy of the United States. A Study in Trade Philosophy, Philadelphia,
PA, University of Pennsylvania Press, 1938. For a more recent and relevant discussion, see Chase
Wild, Klein, and Richter, op. cit., p. 15, but see 10-18.
60More details in Theodore H. Cohn, NAFTA, GATT, and the Canadian-U.S. Agricultural
Trade Relations, The North-South Agenda, # 10, Coral Gables, FL, North-South Center, University
of Miami, 1994, pp. 6-7.
61Explained in Benjamin Cohen, "The triad and the unholy trinity", Pacific Economic
Relations in the 1990s, Cooperation or Conflict?, Boulder, CO, Lynne Rienner, 1993, pp. 133-158.
62On this point, see the volume edited by William Diebold, Jr., Bilateralism, Multilateralism
regardless of those constraints. For Mexico this was evident only after 1985, but the outward orientation adopted since, being as it is very structural, appears in the mid-1990s to be irreversible. For both Canada and the United States, major adaptations have had to be made—for the former in agreeing to a regional trading arrangement with the United States that it historically refrained from, for the latter in rising above the grip farm interests historically exerted over policy-making to ultimately liberalize that sector.

Third, this long-term orientation is, in turn, altering domestic behavioral patterns, especially with interest intermediation, revealing how influential and penetrating the multifaceted nature of competitiveness can be. The argument that hegemony hinders an appreciation of competitiveness because the provision of so many public goods and the resultant free-ridership makes competitiveness a meaningless concept, seems to be borne out by recent developments across North America. Only with the pursuit of regional trading arrangements has competitiveness become an issue between the three countries, and between the three countries, on the one hand, and the rest of the world, on the other. One positive implication is that the three North American countries are demonstrating more sovereign respect for each other than ever before, even developing networks of relationships where none or few existed before—as between Canada and Mexico, or over environmental control. Ultimately, however, whether a regional pattern of behavior over interest mediation, for example, evolves or not, may be determined less by the momentum of the outward orientation than national idiosyncracies serving as potent barriers.

Finally, since World War II, convergence in policy priorities, especially over trade and economics, has been possible not because of the Cold War, which in fact severely constrained natural competitiveness from emerging everywhere, but through the struggle to find markets. Yet convergence may not have been possible or suitable at any previous instance since the domestic policy preferences and pressures were simply not commensurate for competitive purposes. Either a political threat, as communism for the United States, or economic preferences, such as import-substitution for Mexico, did not provide the atmosphere for policy convergences; and without such convergences, the crucial factor in inducing competitiveness to serve the national interest was clearly absent. In the final analysis, that the national interest would be better defined in terms of regional interests was the only logical expectation of the varying levels of national development and supranational positioning.

Several broader observations are made and offered as hypotheses for future testing.

First, competitiveness is too multifaceted and fluid today: Too many units of analysis are impacted, increasing privatization makes reconciliation with political forces more difficult, and technological breakthroughs are so rampant that what is at the cutting-edge today may easily become obsolete tomorrow. Under the best of
circumstances, competitiveness today may be more open and fair; under the worst, it
could become too slippery and summon protectionist calls. Countries are likely to
swing between these two poles tentatively, which in turn may make the need for a
set of dispute settlement arrangements very necessary and acceptable. Thus, if
competitiveness is the unpredictable factor today, as this study contends, it has also
sparked the growth of remedial measures—most evident in the robust growth of
dispute settlement measures, both regionally and multilaterally.

Second, with the nature of competitiveness so much in flux, it is likely that
opportunities for regional trading arrangements to be initiated and to flourish will
also be rare. From the mid-1980s, such an opportunity presented itself across North
America—without any guarantee that the conditions which made regional trade
arrangements preferable to all three countries then would persist. Indeed, in the
1990s, we are witnessing scattered cases of eroding interest in regionalism across all
the three member countries. Yet, for better or worse, the three countries may find
regional collaboration more profitable than multilateral—and may indeed resign to
that fate in spite of the several asymmetries, hurdles, and threats potentially existing
between them. More probable, this may be the route for other regional trading blocs
too.

Third, competitiveness emerges not only from interaction between firms and
the government, but also between domestic interest intermediation patterns and their
supranational counterparts. If the contemporary thrusts of globalism are pushing
countries beyond national boundaries, it is only a matter of time before domestic
groups coalesce across frontiers too—a development which began so painfully in the
European Community with agriculture, but which may be a common practice in
other parts of the world, such as North America, over other economic sectors too.

Finally, competitiveness in any industry may be ultimately conditioned by
how one of the most sensitive industries in any country is dealt with agriculture.
Whether farming is liberalized or sheltered may have rippling effects throughout the
economy. On the one hand, it can pose several challenges to regional or global
integration, and thereby distort competition. Yet, on the other, if indeed agreement
can be made over agriculture, it would only accelerate integrative efforts in the first
place. Clearly, this was the case in West Europe, as the "empty chair" crisis of 1965
and the sclerosis of the late 1970s and early 1980s point to the doldrums in
integrative efforts, and the special agreement over agriculture between France and
the Federal Republic in January 1962, and between the European Community and
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