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**Book Review — Digitized Version**

[Book Review of] Tyson, Laura D'Andrea, *Who's bashing whom? Trade conflict in high-technology industries*. Institute for International Economics. Washington, D.C., 1992. XVIII, 324 pp.

Weltwirtschaftliches Archiv

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*Suggested Citation:* Kloldt, Henning (1993) : [Book Review of] Tyson, Laura D'Andrea, *Who's bashing whom? Trade conflict in high-technology industries*. Institute for International Economics. Washington, D.C., 1992. XVIII, 324 pp., *Weltwirtschaftliches Archiv*, ISSN 0043-2636, Mohr, Tübingen, Vol. 129, Iss. 3, pp. 639-640

This Version is available at:

<https://hdl.handle.net/10419/2190>

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und sollten – entgegen der derzeitigen Praxis – bei internationalen Bemühungen zur Liberalisierung des Handels nicht ausgeklammert werden.

Jörg-Volker Schrader

**Tyson, Laura D'Andrea, Who's Bashing Whom? Trade Conflict in High-Technology Industries.** Institute for International Economics. Washington, D.C., 1992. XVIII, 324 pp.

Who's bashing whom? Japan and Europe are bashing at the United States, but the United States should bash at them in return. This is the central message of Laura Tyson's book. It is primarily addressed to policy makers rather than scientists, and it provides a comprehensive non-technical overview of recent theoretical and empirical work on international trade relations in high-tech industries.

The book starts from the assertion that competitive advantage in high-tech industries is created, not endowed by nature, and that government action plays a dominant role in establishing those advantages. It mainly rests upon the theory of strategic trade policy and the policy conclusions put forward by various of its proponents. Tyson suggests that a strong high-tech sector is beneficial for the whole economy, because technology-intensive industries allow to earn oligopolistic rents, exhibit positive spillovers to the technological development of other industries and create high-wage employment opportunities for qualified workers. She further argues that Japan and to some extent also Western Europe massively support their research-intensive industries by subsidies and external protection, which in turn reduces the share of US high-tech industries in world markets. From the perspective of a "cautious activist" she recommends the US government to press for an opening of foreign high-tech markets and – if this does not help – to impose retaliatory restrictions on imports to the US markets. In addition, a limited number of strategic industries should be supported directly, and joint R&D cartels of domestic firms should be encouraged.

The remaining chapters are concerned with detailed case studies of specific high-tech areas: supercomputers, semiconductors, commercial aircraft, and consumer electronics. These chapters provide rich information on main producers, technologies, market structures, trade relations, and, last not least, trade frictions. In most cases, she argues, the attempts of the US government to solve trade conflicts and to improve the export opportunities of US firms by establishing fair trade rules failed, because foreign firms often circumvented these rules. It would have been preferable to her if the US government had strived for selective reciprocity that links access of foreign firms to US markets to comparable access of US firms to foreign markets. For this purpose, she suggests to concentrate on "voluntary import expansion agreements (VIEs)" that establish minimum market shares of US firms in specific foreign markets. In her view, this would not result in pure managed trade, but in a compromise between negotiated rules and negotiated outcomes of international trade. She repeatedly mentions that her whole policy agenda involves the danger of running into international trade wars, but apparently she does not take those dangers too seriously after all.

Politically, the book is an influential one. Not only because Laura Tyson has been appointed the head of the Council of Economic Advisors by President Clinton, but also because she formulates an interventionistic policy design that fits well into widespread concerns about the future of the US economy among policy makers and the public. From this point of view, it would have been preferable if the "cautious activist" were a little bit more cautious, because many of her arguments are based on rather shaky grounds. Throughout the book, she heavily rests upon that part of the literature that seems to be supportive to her views, whereas she takes only limited account of the

caveats and restrictions that raise doubts about the prospects of a successful strategic trade policy. Above all, she tends to ignore the warnings of numerous authors that governments may be unable to identify strategic industries and that foreign governments may retaliate. It has repeatedly been demonstrated that an ill-designed strategic trade policy approach may do more harm than good.

Tyson is probably right in arguing that the competitiveness of the US economy in high-tech industries is deteriorating and that this development tends to threaten the relative income position of the United States in the world. When addressing the basic determinants of this unfavourable development, however, she seems to be less precisely on the mark. In our view, the decline of US technological leadership mainly reflects the weakness of human capital formation over the past decades rather than unfair trading practices of foreign countries. If policy makers are short of popular arguments advocating government support to strategic industries, Tyson's book will prove to be a rich and highly valuable arsenal. If they want to better understand the reasons why the US economy is falling back, they should better look at the relative qualification levels of the labour force in different countries and the systems of education and vocational training in Japan, Europe and the United States. In an increasingly global and integrated world economy, it is not trade barriers that count, but investment in human capital.

Henning Klodt