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ABSTRACT

This paper will attempt to examine the economic success of Asia through an in-depth comparison of Asian capitalism to the traditional Western system. Through this examination we will look at the impact of cultural dimensions such Confucian dynamism, and examine the roles of international trade and global competitiveness as factors influencing economic growth.

CULTURE

Culture, defined as "the collective mental programming of people in an environment," (Hofstede, 1980), refers to a conditioning of a group of people which will influence a lifetime of thought process, behavior, and actions. Culture is a powerful force which affects the economic processes (Hofstede, 1994). As such a force, culture cannot be dismissed or taken lightly in its fundamental role in economic development. Researchers agree on its importance, but many discrepancies arise as to what culture is, what its true impact may be, and how it should be measured (Yeh & Lawrence, 1995).

National Culture

National culture may be thought of as a similar conditioning of a people based upon political, religious, historical, ethnic, and geographic inputs. While it may be argued that national culture could consist of additional input, or that not all of the previous items are valid in all circumstances, this is a sufficient working definition for the purposes of this paper.

National culture resides in deeply-rooted values (Hodgetts, 1993), and its distinctions are found to vary widely. The pursuit of establishing characteristics to define and measure these distinctions has been an ongoing focus of many research efforts. Geert Hofstede (1980) developed a pioneering and widely accepted classification scheme which breaks national culture into the dimensions of power distance, uncertainty avoidance, individualism-collectivism, and masculinity-femininity. Hofstede's (1980) first dimension, power distance, examines a culture's tolerance for accepting unequal dispersions in power between members of organizations. The second dimension, uncertainty avoidance, is based upon a society's degree of uncomfortability with ambiguous, unpredictable situations, and its pursuit of stabilizing activities to avoid such situations. The individualism-collectivism dimension measures a society's degree of identification with, and level of dependence on social frameworks. Hofstede's final dimension uses the terms masculinity and femininity to describe groupings of characteristics such as assertiveness, wealth, people, and quality of life that a society places value on (Hofstede, 1980, 1991). A listing of Hofstede's cultural dimensions, with indexed scores by nation, is available in appendix 1.

Confucian Dynamism

Concerns over the role of western bias in Hofstede's classifications scheme have been a current research issue. Hofstede and Bond (1988), attempted to address this issue by developing the Chinese value survey. This study utilized three dimensions of moral discipline, integration, and human heartedness -- which are similar to three of the original dimensions (power distance, individualism, and masculinity), and one unique dimension labeled Confucian dynamism.

This new dimension is synonymous with the degree to which a culture has a long-term orientation (Hofstede, 1991). Cultures with high levels of Confucian dynamism utilize a future orientation which values persistence, frugality, shame, and status-ordered relationships (Yeh et al., 1995). In comparison to this, cultures exhibiting low levels of

Confucian dynamism emphasize values which focus on the past and present such as stability, saving face, tradition, and the bestowing of favors. These studies showed a relationship between Confucian dynamism and individualism as influential factors for economic growth, concluding that high Confucian dynamism, coupled with low individualism would produce high economic growth (Franke, Hofstede, & Bond, 1991).

Later research indicated major concerns with these results based on concerns of a lack of mutual exclusivity for Confucian dynamism and individualism (Yeh et al., 1995). These stem from an incomplete definition of individualism used in earlier work which did not take in to account such concepts as innovation, responsibility, risk taking, and entrepreneurism. All of these are concepts which are traditionally associated with individualism and one of its founding motivations -- the Protestant work ethic (Bell, 1976; Tawney, 1927; Weber, 1958;).

Recent work by Yeh and Lawrence (1995) indicates that Confucian dynamism and comprehensive individualism are highly interrelated and may even be identical dimensions of culture. These findings point out that a definition of individualism which only focuses on short-term satisfaction-oriented aspects will expectedly be unrelated to high dynamism and its resulting economic growth. This is supported by previous research which found a high negative correlation between individualism and economic growth among wealthy developed nations (Hofstede, 1980). Yeh and Lawrence (1995) conclude that collectivism, which shows a culture's desire for the acquisition of skills, is related to high dynamism's focus on drive, ambition, and efficiency. This signifies that a culture with a societal acceptance of the concept of delayed gratification will enjoy future payoffs from their high work ethic. This clarification of cultural dimensions is important in the pursuit of an externally valid classification scheme to assist in comparisons of the economic systems.

A COMPARISON OF ASIAN AND WESTERN CAPITALIST SYSTEMS

The interaction of U.S. and Asian business practices in the open market has been described as a contest of producer economics versus consumer economics (Thurow, 1992). The system of consumer economics is employed by profit-maximizing Western firms where the rationale of the utility-maximizing individual is that more consumption and increased leisure are the sole economic elements of human satisfaction. Under this system, work and saving, which represent leisure and consumption foregone, are tolerated only because the future income that flows from these activities provides the economic resources needed for future consumption. In contrast is the system utilized by many Asian nations, such as Japan, of producer economics. This system is based on the concept that belonging, esteem, power, building, winning, and conquering, are all human goals just as important as maximizing consumption and leisure. In producer economics, work is where one achieves these goals. Thurow (1992) argues that the Japanese secret is that they have tapped the human desire to build and belong to an empire, to conquer neighboring empires, and to be the world's leading economic power. The goal of this system is market-share maximization, through strategic conquest, and value-added maximization, as opposed to the consumer economics goal of profit maximization. A key difference of the two competing perspectives can been seen by observing the role that profits play in each system. Firms in consumer economics and producer economics both want profits, but the role played by profits is very different. For a profit-maximizing firm, profits are its final goal and main objective. Here profits will be devoted to individual consumption often through bonuses and stock dividends. In an empire-building firm, profits only serve as a means to an end, to expand the empire; the goal is market share, not profits. Profits will be used for investment to expand the empire. To pursue this goal, the empire-building economy will organize itself to lower consumption in order to focus the majority of its resources on investment. In order to maximize the income going to businesses, consumer prices are held at a much higher level than in a free market. In Japan, this system has worked as it was designed to produce a high-saving, high-investment society. In contrast, the low savings rates and short time horizons of the U.S. are in accordance with what would be expected to maximize individual consumption. To achieve this goal, savings are at an all-time low and the trade deficit is at an all-time high. The U.S. is able to maximize its consumption by saving very little and selling off existing assets to finance a trade deficit. Where the Asian system of producer economics invests for the future, the U.S. system of consumer economics borrows from the future.

In terms of the long-term implications of either system no clear answer is apparent at this point in time. The producer economics system may be vulnerable to consumer rebellion, and can only exist if the consumer-voter has goals other than maximizing his own consumption. Each system has unique advantages that are mainly dependent on the global economic conditions. The triumph of one system over the other will depend on whether the global economy maintains strong growth or returns to a static environment of no-growth competition. In the first scenario, the empire-builder has the advantage, and the practices of consumer economics are a severe handicap to profit-maximizing firms. In the latter scenario of a stable no growth environment, efficiency and cost minimization may be the keys to success, and therefore, would give the advantage to systems practicing consumer economics. Over the long run it remains to be seen if one can be emphasized to the exclusion of the other. In recent history it appears that producer economics has the advantage, but a key question is how long the Japanese population of "poor people in a rich country" will put up with foregoing the fruits of their labor. As for the system of consumer economics, if the global economy continues to grow, the prolonged dissaving and increasing trade deficits should eventually result in severe depression once all assets are sold off and resources depleted from the maintenance of over consumption. Over the long term we will most likely see different cycles of both growth and no growth periods which may help to balance the positive and negative aspects of both systems. In order to succeed, both systems will most likely need to adapt to the changes of each period by remaining flexible. The system with the greatest flexibility, and foresight, should end up in the best position economically over the long-run.

The difference of consumer and producer economics are directly related to the differences observed between business and government institutions in Asian and Western nations. The Japanese system for example, geared towards empire-building under the system of producer economics, has developed the structure, institutions, and policies to limit consumption in order to promote growth and investment. The U.S., wary of big business, has developed a system in pursuit of maximizing consumption, by focusing all efforts on the goal of high profits to achieve the end benefit of increasing the welfare of the U.S. consumer.

Thurow (1992) theorizes that Asia, and Europe are in stronger economic positions to be dominant economic regions in the 21st century. This position is based somewhat on their practice of producer economics and government/industry teamwork vis a vis the U.S. system of consumer economics. With this position, Asia, centered on Japan or China, as one of the world's largest markets, would be able to influence trade rules and practices. As on of the largest markets, the world will have to conduct business by Asian methods and regulations if they are to be competitive. Effectively, Asia may get to write the rules of world trade for the 21st century through their economic power, much in the same way the U.S. and Europe have influenced the trade rules of previous centuries. This idea represents a major shift away from U.S. business practices, which were the world standard but may now be obsolete. Thurow (1992) also mentions new sources of strategic advantage, such as a shift away from natural resources, to capital, technology, and labor skills.

In comparing geo-economic regions, Thurow (1992) examines the specific strengths of the E.C., Japan, and the U.S. The E.C. has a well educated population, the largest united consumer base, and the potential to be the dominant economic power if it is able to make all the right moves to unity. Japan has the strengths of their economy built on producer economics of strategic conquest, teamwork, capital from savings, a protected domestic market, dedicated employees, an outstanding K-12 education system, and the overall national drive to be winners. The U.S. still has an advantage in some areas such as aircraft, biotechnology, computers, college level education, and software to name a few. The U.S. is facing a wide array of problems such as over- consumption, national debt, trade deficits, poor K-12 education, lack of R&D spending, lack of savings and investments, and obsolete regulations which hinder U.S. businesses at home and abroad. Despite these concerns, it is not too late to make the tough changes necessary to improve the position of the U.S. to be a competitor in the 21st century.

Finally, Thurow (1992) details his plan for the changes and restructuring needed for the U.S. to compete. Some key points of Thurow’s (1992) "American game plan" are international benchmarking, strengthening savings and investment, increasing taxes, slowing the growth rates on public and private consumption, improving K-12 education and training for the non-college bound, restructuring securities regulations to force stock holders to adopt a long-term position and an interest in the success of U.S. companies, and changing regulations to allow businesses to work together and cooperate with government.

The world’s economic power is clearly shifting from a unipolar to multipolar system. The U.S. is no longer "the only game in town," and is rapidly falling behind it's competition. It appears that the form of capitalism being employed by Asia and the E.C. is very effective in a global market, and in particular, taking advantage of the U.S. market. If the U.S. doesn't make the necessary changes to allow its companies to be competitive with the E.C. and Asia, we will most certainly decline as an economic power. It is even possible this decline would see the U.S. ending up as an "economic colony" of a 21st century economic superpower such as Japan or China.

If the current trade deficits and massive government debt continue unabated, eventually all the assets and wealth of the U.S. will be drained out of the country. In a sense we will have borrowed all that can be taken from the future, and sold off everything of value in the country to other lender nations. It would be very unfortunate for the U.S. if such a scenario were to occur, but it is a very real possibility unless necessary changes are made. Some of the suggestions for change involve: 1) The idea that the stock ownership of companies should be geared long-term, where investors are dependent on the success of the business they have purchased stock in, rather than on wild fluctuations in stock price based on speculation in quarterly profits or losses; 2) Companies should be allowed to work together on joint projects, sit on each others board of directors, and own stock in each other; and 3) The idea of permitting bank ownership and involvement with industry. Without such teamwork, American companies may be picked apart and beaten in one industry after another on the economic field of battle. An organized, united army will always defeat an army in which the soldiers stand alone and fight amongst themselves. This statement fits what has happened to the U.S. market over the past twenty years, where the producer economics of strategic conquest have been so successfully employed by well managed Asian firms in many industries. It also appears that the world economy has now reached a point where the strategic advantage gained by the U.S. after World War II has been eliminated by the hard work of Asian and European nations and their businesses. The U.S. has been guilty of excess in its style of consumer economics, which has now caught up with it. The U.S. has been very slow to react to the challenges from more effective, long-term oriented, producer economics nations.

The current world balance of economic advantage clearly seems to favor Asian economies. I am not as optimistic on the long-term aspects of this advantage for several reasons. Mainly the Asian economies are largely dependent on export to the U.S. market. This is an area which may not always remain open to them, or be as easy to sell in as it is now. As more and more industries and jobs are lost to imports, I feel U.S. businesses will be forced to become much more competitive to survive. There is also a likelihood of a widespread backlash against imported products by U.S. consumers and businesses. As things become more difficult in the market, businesses may become more supportive of each other. This is especially possible among domestic companies that don't compete directly against each other, but consume each others products. (i.e. Xerox leasing only GM cars for it's sales personnel, and GM purchasing only Xerox office products.)

The Europeans and Asians are certainly in the best position at this point in time to be more successful in the economic battles of the 21st century, but the U.S. is not entirely out of the picture yet. With the "babyboom" generation reaching retirement in the early 21st century, the U.S. will see a new generation of more competitive, better educated leaders come to power. This generation of new leaders is smaller in number, and will have worked much harder to become successful than the previous generation. This is a generation which has witnessed the excesses of consumer economics of the 1980's and the resulting recession and unemployment of the 1990's. This is a group of leaders which will be used to playing the "catch-up" game, which Thurow (1992) speaks of, as it is the same game that they have grown up with.

Asian Capitalism: A Japanese Example

There are a number of differences between the business and government institutions in the U.S. and Japan. The main differences are in structure and interaction. In terms of structural differences, the Japanese economic bureaucracy is centered in various ministries such as the Ministry of International Trade and Industry (MITI) and the Ministry of Finance. Service in these ministries is considered to be the most prestigious occupation available, and therefore attracts its members from the top ranks of the best law school in the country. These ministry employees often retire at a young age and move into powerful positions in business and politics. This system is in direct contrast to the U.S., where top minds work for business, possibly entering politics later in life, and government service ranks are filled with personnel of lesser skill and education. A second structural difference is in comparison between the Japanese parliament, which in actuality has little power, and the U.S. congress, which is the strongest such institution in the world. Another structural difference entails the Japanese legal system, which is patterned from continental Europe rather than Anglo-American common law. This is exemplified by the fact that economic law, lawyers, detailed contracts, and adversarial relationships do not play nearly the important, or detrimental, role that they do in the U.S.

In the area of interactional and business differences, Japanese firms operate with a cooperative, triangular relationship with the two main power centers of the bureaucracy and the Diet. In contrast to this is the oftentimes adversarial "business vs. government" relationship found in the U.S. In regards to this relationship, the Japanese government is extremely intrusive into the privately owned and managed economy through cooperative, market-conforming actions.

With the effectiveness of this interaction, Japan's economic bureaucracy has become the most powerful of any contemporary democracy while remaining small, lean, and imposing the lightest tax burden of any capitalist system. One can easily envy this relationship when drawing comparisons to large, inefficient, and heavily taxing, Western bureaucracies. Japan has been successful by maintaining a developmental priority, to secure long-term dynamic comparative advantage and international competitive ability for its citizens. This is achieved by characteristics of the relationship such as similarities in outlook between public and private managers, ologopolistic organization of business, and the practice of obtaining capital through borrowing which prevents the influence of shareholders and securities analysts.

Another aspect of this relationship, and perhaps the most important one, is Japanese industrial policy which, with government monetary and fiscal policy, makes up Japan's economic triangle. Industrial policy is employed at two levels. At the macro level, government incentives are provided to influence savings, investment, R&D, quality control, and education. On a micro level, the government employs an industrial targeting policy which tries to identify and implement technologies for the future needs of its industries. This industrial targeting is carried out by MITI through econometric forecasting concerning development and change of industrial structure, allocation of capital to strategic industries, and promoting needed or recessed industries.

In light of these differences between the Japanese and Western institutions, and the remarkable success of Japan in a free market system, several conclusions may be drawn. Perhaps the most heavily emphasized lesson is to learn from Japan the logic of what it is doing without having to copy its institutions. A competing nation should avoid protectionism and work to orient its industries to the implementation of macro industrial policies while inhibiting political influence on economic policy making. By studying the competition, nations have the opportunity to adapt to structural and relational differences in order to enhance the comparative advantage and international competitiveness of their economies.

GLOBAL COMPETIVENESS OF NATIONS

National competitiveness is defined as a nation-state's ability to produce, distribute, and service goods in the international economy, in competition with goods and services produced in other countries, and to do so in a way that earns a rising standard of living. This definition may be compared and analyzed through various key economic indicators such as manufacturing production and employment, industrial structure, export market share, profitability, productivity growth, investment, trade balances, trade composition, trade specialization, import penetration, and earnings in manufacturing. Difficulties in analyzing competitiveness are encountered because there appears to be no set single measure of competitiveness. In order to get a picture of a nation's competitive position the key economic indicators need to be studied in conjunction with each other.

Among the many factors of competitiveness, there could be considered three key factors. These are production, distribution, and service. These three factors have a direct relationship to our often studied economic indicators. Some of the linking factors are the causal relationships seen between changes or movement in economic indicators and the short and long term impacts they bring about. One such relationship is the relative strength or weakness of a country's currency in relation to its competitors. This position of currency has an effect which is two-fold. First, the strength or weakness of a currency has a direct impact on the desirability or undesirability of the exported products from that nation. A strong currency will make it difficult to market that nation's exports to other countries because of their higher costs due to the strength of the exporting nation's currency. In contrast to this, a weak currency will make a nation's products more marketable to export due to their low costs relative to the importers currency which provides the importer with increased purchasing power. The second effect, which has played a part in U.S. economic difficulties, is that a strong currency creates a higher cost of capital for that nation, which in turn increases the world demand for that currency as other nations loan money in that country in order to earn higher returns. A high cost of capital, brought upon by a strong currency, forces a nation to demanded higher rates of return from their investments, which in turn can lead to selectivity and reduction in research and development spending. The net effect of this is that it causes the strong currency to stay that way while continuously draining that nations ability to compete as they increase their borrowing and decrease their productivity. Over a period of time, this may result in import penetration into a nation's domestic markets. Ultimately linked to this may be a decrease in employment, earnings in manufacturing, and profitability due to prolonged unbalanced trade.

A sign that Asian capitalism may be the more competitive system is the increasing disparity in U.S. wage rates. U.S. Labor Secretary Robert Reich (1983) states that many reasons have been offered as to why incomes in America have been diverging. Among these reasons as to why the rich are getting wealthier while more Americans fall below the poverty line, are that the tax system, Reagan/Bush social policies, the increase of single parent families, and the increase of younger, unskilled, inexperienced baby boomers. Some of the reasons for income inequality in the U.S. are listed in table 1.

TABLE 1: Reasons for Income Inequality in America

- Government tax system and social policies
- Growth of single parent, lower income families
- Baby-boomers
- Employment's inability to provide a living wage
- Increased divergence in education levels

- Decrease in routine production service jobs
- Increase in in-person service jobs
- Increase in symbolic-analysis jobs

Reich (1983) states that some of these may be contributing factors, but that they are not the actual root causes. He attributes the cause to his underlying premise that a nation's real competitive position is based on the function its workers play in the world economy. To this Reich (1983) offers the argument that the core corporations are breaking down into global-webs. With this break down comes the loss of a majority of the high paying jobs for middle and lower class, less educated workers. This loss of high paying, routine production service jobs, is causing the displaced workers to move into lower income in-person service jobs. Therefore we are seeing a larger number of less educated workers working for greatly reduced wages. At the same time we have an upsurge of well educated symbolic-analysts, whose incomes are greatly increasing with global demand for their services. In conclusion, the rich symbolic-analyzers, are well suited to the global economy and are becoming wealthier, while the poor, less educated routine production workers, are not well suited to compete in the global economy, have been displaced into low wage jobs, and therefore have become poorer.

THE ROLE OF INTERNATIONAL TRADE

Previous Impacts of World Trade

There has been much discussion regarding the problems and difficulties the world trading system is experiencing under the current system of GATT, as it fails to function under the current assumptions the world economies are operating under. The assumptions of comparative advantage that GATT was based on are listed in table 2.

TABLE 2: Assumptions of Comparative Advantage

- Perfect domestic and global competition
- No technological innovation or change in technological levels between nations
- Factors of production immobile between nations, yet perfectly mobile within a nation
- Barrier free trade
- No transaction costs
- No economies of scale
- Price determination by labor and production, not demand
- Irrelevant consumer preferences
- Products contain a similar mix of inputs

With much of the world suffering from debt, high unemployment, and stagflation, the one source of financial stimulus to the global economy was the U.S. budget deficit. This contributed extra purchasing power to the world economy; unfortunately it is and was at a very high, long-term cost to America. Some nations face internal challenges to revamp their economies to become more productive and reduce consumption. A grasp on the concept of free trade has kept the U.S. market open as it is targeted by empire building, nationalist economic strategies of more competitive nations. These internal and external forces have resulted in a declining competitiveness in certain U.S. and European industries. Firms have given up or lost many of their core competencies. The U.S. has experienced a major decline, in relation to other developed nations, in the quality of its primary and secondary education system. U.S. schools do not provide an adequate development of the educational skills and practical knowledge of our population. There is a large gap between the skills of our college educated and non-college educated. U.S. universities, among the finest in the world, are educating an ever-increasing number of foreign nationals, as Americans lack the skills, ability, and desire to enter most of the more challenging disciplines, such as engineering and science. While the cross-cultural exchange within our educational system is an excellent benefit, efforts need to be taken to upgrade the educational skills of the U.S. population, which could help our country maintain and develop core competencies.

Because of these problems, Western economies will have to work much harder than they have in the past just to try to maintain their over-extended standard of living. It is possible this may even involve a reduction in real incomes and standards of living to a level that is reflective of our true productivity and the value we add to the global marketplace. The current system, with the continued borrowing, over-consumption, and debt compiled by the U.S. cannot continue to operate indefinitely. Eventually the nations oriented on consumer economics will lose their will or financial ability to consume the output of the producer economies. This may occur because too much wealth is eventually transferred out of Western nations, or because of the implementation of defensive industrial policies. For whatever reason, the current path we are on is not taking us in the right direction. A decline of the consumer economies, by any means, will hurt the producer nations as well. There is a need for a balance, where all nations may work together and prosper.

International Trade - A Current Theoretical Perspective

International trade, on a macro level, is conducted within a framework of trade agreements derived from negotiations among governments. When a government, in such a negotiation, wins concessions from another government, these concessions are typically harmful to consumers in the country whose government "won" the concession. Such concessions are usually agreements by other countries to limit the intensity with which foreign firms will compete in the export market. These concessions help special interests such as domestic firms by shielding them from competition, but harm the majority interests of the nation by imposing higher costs on domestic consumers. This is demonstrated through sugar prices in the U.S., or the retail price of rice in Japan -- both of which are well in excess of world market rates (Boudreaux, 1995).

Given this focus of governments to protect special interests' privileged domestic trading positions, most of the negotiations that occur over trade agreement formulation are negotiations on how to deviate from or limit free trade (Boudreaux, 1995). Keeping this motivation in mind, a trade system which encompasses cultural dimensions could be an appropriate means for effectively obtaining a balance between special and majority interests of each nation in international trade agreements. In theory, governments of the world have been attempting to advance the idea of free trade; Yet in practice, the results of international trade agreements have consistently been less than free trade. In order to maximize opportunities within the current system, it is necessary to briefly examine the assumptions, constraints, and ideals of global trade. Current assumptions of international trade are listed in table 3.

TABLE 3: Current Assumptions of International Trade

- Imperfect domestic and global competition
- Rapid technological innovation and disproportionate levels of technology between nations
- Factors of production mobile between nations, yet somewhat immobile within a nation
- Free trade compromised by non-tariff barriers and industrial policies
- Existence of both transaction costs and economies of scale
- Pricing determined by demand, as well as labor and production
- Strong consumer preferences
- Significantly different mix of inputs across product lines
- Importance of international trade to U.S. and World economies

Given the current assumptions of international trade, what assumptions should a global system of international trade operate under in an ideal model? How could a system be designed to focus on these current assumptions, to be successful much in the way the General Agreement on Tariffs and Trade was originally successful by focusing on the 1940's era assumptions? Ideally, a global trade framework should take into account differences in cultural dimensions, and attempt to use them as an asset in the pursuit of mechanisms to facilitate an integrative outcome oriented system of international trade.

Asian Trade - China from a U.S. Perspective

Due to the complexities involved in trading with the Peoples Republic of China, the U.S. handling of trade negotiations has been equated with solving a puzzle. U.S. trade policy and negotiations involving China have been difficult, and often hostile, sometimes hovering on the brink of an all-out trade war in which retaliatory duties could be imposed on approximately $450 billion worth of Chinese exports to the U.S. Recent areas of contention between the U.S. and China have been over software pirating, and the disregard for patents on agricultural chemicals and pharmaceuticals. Tension resulting from these, and other areas, often finds China on the U.S. priority list of trading rogues. China has had a constant fight with the U.S. over maintaining it's most favored nation, (MFN), trading status partly due to concerns over human rights violations.

Recently tension has developed over conditions surrounding China's bid to join GATT, and become a founding member of the WTO. The major sticking points appear to be the continued trade imbalance and the lack of protection for intellectual property rights. Additional frustration for the U.S. lies in the fact that many of China's trade regulations are secret and unpublished, which adds considerable risk to trade and investment in China. Trade conflict in these and other areas appears to be inherent in the complimentarity of the U.S. and Chinese economies. China's main interests lie in maximizing its exports to meet its foreign exchange needs, and to become a full member of the international trading system. Currently, China's source of competitive advantage lies in low-cost, labor-intensive, light-industrial goods.

Current trade issues from China's perspective are concerns over being taken advantage of by foreign investors and corrupt lower-level officials. To protect against these threats, China has recently drafted regulations to limit foreign investment. These regulations are designed to ensure that state assets are not sold off at bargain prices, and to maintain the government's role as the central mainstay of the Chinese economy. Despite the new regulations, China isn't likely to discourage foreign investment, (over $30 billion in 1994), to any great extent due to its integral nature in financing China's rapid economic growth.

In addition to capital, foreign investors can offer China much needed technology and modern management methods to China's current and developing industries. To maintain the influx of capital and expertise, the U.S. and others seek China to make major economic reforms in the areas of finance and banking. While there appear to be common interests, the difficult task in negotiating lies in getting the U.S. and China to move away from their confrontational positions, and to work together to develop options for mutual gain.

It is apparent that trade negotiations with China are very traditional in style. This is perhaps due to the fact that the negotiations lack the overall framework, or sense of purpose, which tie NAFTA and GATT together. It may be this need for a link between the individual negotiations and the ability to foresee the benefits of a long-term multilateral trade pact which facilitates synergism. The possibility of an "APEC" free trade agreement emerging from the Asia-Pacific Economic Cooperation summit in November of 1994, may provide what is lacking in U.S. - China trade policy.

China appears to be a very difficult, yet potentially lucrative market to conduct business in. The opportunity of selling goods or services to over one billion consumers can be achieved if numerous obstacles can be overcome. Beyond the perception of a high cultural distance, obstruction to the market is mainly put forth by the Chinese government. In order to conduct profitable operations in China, a firm faces the challenge of putting together an effective marketing mix strategy. It is likely that China will become the world's largest economy in the next decade. However, major dangers may arise for the U.S. if China is allowed to maintain its protection for state industries. Investors should consider all options when making investment decisions regarding China, and be wary of the potential obstacles.

Asian Economic Blocks

There is the potential for further economic integration in Asia based upon the commonality of Confucian dynamism. This could result in the development of an Asian trading bloc, but several factors should be taken into consideration when comparing such an Asian bloc to the E.C. or NAFTA. First of all, Japan and the East Asian nations do not have the formal economic and political institutions of the E.C., nor do they have free trade arrangements similar to NAFTA. However, Japan has been particularly aggressive in investing in manufacturing plants and expanding intra-firm trade relations with Southeast Asian countries. Japan at this point may not want to alienate the U.S., its most important market, and probably does not want to be bound to countries whose principal interest in joining a bloc is to attract Japanese capital.

It is not clear whether this movement in many parts of the world toward regional trading arrangements is a positive or negative trend and whether the blocs will contribute to opening up world trade or closing it off. Blocs that truly liberalize trade among themselves could improve their general welfare. These developments are a result of the need for some type of new system of international trade, a system that provides for the potential of a positive-sum gain for all nations.

SPECULATION FOR THE FUTURE

It will be interesting see how the economic future of the world unfolds into the 21st century. There are many questions that will be answered in the battle between Asian and Western systems of capitalism. Will Asia be able to maintain their economic momentum? Will Europe be able to unite as the largest single economy? Will the U.S. be able to make the necessary changes in time to recover and remain an economic power? We will have to wait and see, but hopefully differences can be set aside, problems can be worked out, and the world will be able to develop a successful global economy in which there are no losers, only winners.

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