International Business and Economic Integration: Comparative Business Strategies Past and Present

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There is no more important global economic public policy today than that of economic integration. In every major region of the world, governments are pushing economic groupings that are common markets or have the potential to become such instruments of economic integration. The European Community (EC) is moving through this year, popularly called EC 92, towards 1 January, 1993, when it should have completed creation of a tariff-free internal market for goods and services. Canada and the United States began a free trade arrangement on 1 January 1989. Mexico and the United States are negotiating a similar pact; Canada has joined these discussions, which may produce a North American Free Trade Agreement (NAFTA). The Caribbean Economic Community (CARICOM) is struggling to build a common external tariff wall. In South America members of the Andean Pact are striving for more cohesive economic integration, while Argentina, Brazil, Paraguay, and Uruguay are trying to form a southern cone common market (*mercosur*). In Africa such organizations as the Economic Community of West African States (ECOWAS) and *Communauté Economique de l'Afrique de l'Ouest* (CEAO) are endeavoring, against great obstacles, to improve their cooperation. There is talk about a southern African common market emerging, with a "new South Africa" as its driving core. Across the Pacific members of the Association of South East Asian Nations (ASEAN) are exploring the possibility of forming a more integrated economic grouping.

As governments have been fashioning various structures of economic integration, many businesses have crafted, or are hastening to coalesce, *strategies* for dealing with these emerging economic groupings. Generation of these strategies should prepare for the future. But to do that they must grasp the present and penetrate the past. Strategy, simply put as *techniques* to pursue *goals*, must have a substantive historical dimension [15, pp. 97-103]. This historical context should show how businesses in the past tried to deal

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with earlier versions of economic integration. It should address a panorama of cases from the more recent as well as the more distant past.

This paper makes a *prefatory* contribution toward creating the historical context for contemporary business strategy vis-a-vis economic integration. It dissects economic integration, surveys earlier instances, then features examples from recent history. Its special concern is comparative business strategies: what can today's strategists learn from business behavior in earlier venues of economic integration or other situations that might be analogous to economic integration?

Economic Integration: A Primer

Economic integration has spanned a spectrum of cohesion and presentation, with varying mixes of politics and economics, throughout history. In theory economic integration, promoting the combination of economic activities in ways that hopefully synergize them, is distinct from economic unification, the linking of heretofore separate spheres of conduct. But these concepts are closely related, so much so that in practice economic integration has come to serve as an umbrella for behavior that blends both.

The contemporary vocabulary of economic integration is straightforward. A *free-trade area* has no internal tariffs, but its members are free to set their own tariffs with the rest of the world. A *customs union* has a common external tariff and no internal customs. A *common market* is a customs union, but it also has a common system of commercial law permitting freedom of movement of goods, services, capital, and labor inside. The terms *federation* and *confederation* are also important. A confederation is a group of sovereign states sharing some tasks. A federation has a central authority with real clout, although members retain specified and perhaps unspecified powers [12, p. 60]. Numerous examples illustrate this vocabulary. NAFTA--the possible unification of Canada-US and Mexico-US free trade pacts--would be a free-trade area. CARICOM is trying to move from free-trade area to customs union. The United States is a common market and a federation. Switzerland is a federation though called a confederation. *Mercosur*--the South American southern cone countries--aspires to common market status but is not yet a free-trade area. The EC shares features of a common market, a confederation, and federation.

The contemporary vocabulary of economic integration is also part of an *historical vocabulary* of economic integration. The terms--free-trade area, customs union, common market, confederation, and federation--are valid historical constructs but they are not exhaustive. Some examples are not so easily slotted in those categories. It is essential to remember that economic integration is a *spectrum* of *cohesion* and *presentation*, with varying mixes of politics and economics. This generic definition should embrace all possibilities, even though each mode of economic integration may not have a special name.

International Business and Economic Integration: Earlier Examples

Our generic definition of economic integration suggests many earlier examples. Most empires, spiritual and temporal, engaged in economic integration. Some were involved more in economic unification than integration, but their activities come under the elastic rubric that integration now represents. The Roman Empire tried to unify the Mediterranean littoral in what became one of the first great cross-border venues in international business history [25, pp. 192-204; 6, p. 81]. The Roman Catholic Church, stepping into the vacuum created by the disintegration of the Roman Empire in the west, molded its own version of continental integration. The medieval Church, arguably the first major multinational corporation, strove for ascendancy in both temporal and spiritual spheres but was more successful in achieving cross-border financial flows than in standardizing interpretation of dogma. The indigenous empires of Africa--Ghana, Mali, Songhai, Kanem-ornu, the Caliphate of Sokoto, Monomotapa, Buganda, the Zulu kingdom, and even Moshweshwe's legacy Basutoland (now Lesotho)--all sought their own modes of economic integration. The colonial empires of Great Britain, France, Portugal, Germany, Spain, Italy, the U.S.S.R, the United States, and Japan likewise pursued an integration that best fit their own interests and bureaucratic cultures. Time prevents a comprehensive listing let alone review of earlier imperial examples.

Suffice it to say that businesses took advantage of the opportunities presented by imperial integration but in different ways. Some pursued *offensive* strategies: they capitalized on new business possibilities and used economic integration as an opportunity to grow and expand their reach, whether in market share, technological development, or asset accumulation. Some pursued *defensive* strategies, which sometimes meant little more than hiding behind the protective walls which some of these empires built around their internal trade areas. An offensive strategy is not by definition automatically good, nor is a defensive approach intrinsically bad. One key seems time horizon. Defensive strategies can maintain and increase competitive position in the short and medium terms. In the long run--measured in decades--defensive approaches towards economic integration are self-defeating and sometimes terminal.

As examples of an *offensive strategy* which focused on trade expansion many merchants from the Mediterranean littoral and beyond supplied Rome and its environs with a variety of goods [25, pp. 135-39]. Italy's famous family the Medici, which ran the Medici Bank (1397-1494), offers one of the most sophisticated offensive strategies for dealing with economic integration. The family got its start as papal financiers. The Papacy needed bankers with international experience to expedite and maximize by arbitrage the revenue flows from such collections as Peter's pence [9]. Piggy-backing on the Church the Medici became a premier financial family in western Europe. Evading the Church the Medici and others popularized the bill of exchange in order to circumvent the usury doctrine. Co-opting the Church the Medici later placed their own men and women at the administrative apex of ecclesiastical power. This tripartite strategy of *piggy-backing*, *counter-pointing*, and *co-opting* took

advantage of opportunities presented by an evangelical Roman Catholic Church that sought to push outward the frontiers of what it considered the "civilized world." It can serve as a trinity of general strategic techniques for our exploration of business behavior in other arenas of economic integration, as there are different types of piggy-backing, counter-pointing, and co-opting. Co-opting, for example, goes far beyond its narrow meaning of electing to include behavior by a competitor designed to mute or neutralize an opponent's thinking of a relationship as competitive.

A most thought-provoking series of defensive strategies, containing elements of piggy-backing and co-opting, can be found in business behavior with regard to the British Empire and Commonwealth. The central public policy here was the set of British Commonwealth trade preference agreements, negotiated at the Imperial Economic Conference in Ottawa in 1932 [16, pp. 13-38]. In a story told concisely by David Stix, Great Britain had at least claimed to practice "free trade" for almost a century before 1932. But during the Great Depression lobbying by domestic heavy industries helped bring about the imposition of a 10% tariff on most imported goods: this is a kind of business co-opting of government. Great Britain then exempted from those duties other Commonwealth countries and created a Commonwealth free trade area which was also a bloc.

This approach stimulated economic activity in the home country and in the old colonies and possessions, but it hurt Britain's other trading partners. To cite only two examples, New Zealand cut into Denmark's butter and cheese sales to Britain and Australia harmed Argentina's sales of beef and wheat [23]. International businesses within the Commonwealth piggy-backed on the free trade area in order to outdistance outsiders with similar product lines. This earlier version of an economic fortress brought short and medium term economic gain but the long-term cost was crippling. According to economist Barry Eichengreen, the protectionist bloc "locked Britain into old industries like iron, steel and textiles, where the economy would have been better off after World War II with more stimulus to shift into other growth sectors like autos and electronics [23]." To take this analysis one step farther, the operation of this free trade area reduced if not killed incentives for heavy industry to modernize, which made them "old industries" in both chronological and technological terms. Britain's heavy industries would have continued to age chronologically, but they might have rejuvenated themselves technologically, had they not been protected from other bracing "winds of change."

One other past empire that has an intriguing relevance to the present is the "Greater East Asian Co-Prosperity Sphere." Creating this economic and military empire was a major Japanese ambition underlying World War II. The co-prosperity sphere stretched from the coal mines of Manchuria to the oil fields of Indonesia. It was to provide a self-contained and geographically diversified set of sources of supply and markets. Since the *first* co-prosperity sphere was both economic and military, businesses had far fewer imaginative choices in dealing with Tokyo's power. Their basic business strategies were often compliance and survival. Now, fifty years later, as a different kind of co-prosperity sphere embraces and penetrates the western Pacific littoral and

beyond, businesses can devise more creative strategies that acknowledge Tokyo's growing economic hegemony but use Japan's resources and help to promote their own personal, corporate, and national goals [21].

There are other important venues of economic integration besides those generated by empires. One whose history overlaps that of the Medici Bank is the Hanseatic League. It began in the thirteenth century as associations of foreign merchants. The best known are the Hansa of London and the Teutonic Hansa, which prevailed in northern and eastern Europe. The Hansa used towns as their power base and evolved into town confederations. The Hanseatic League, which peaked in the latter fourteenth century, made major contributions to economic integration. Members extended the zones of trade and commerce. They helped standardize methods and patterns of trade. They provided stiff competition for other alliances or trade zones, such as the Staple, the Milan League, and Venetian traders [24, pp. 94-5; 10, pp. 232-58; 22, pp. 13-64]. These facts are well known, but not so appreciated is the significance of the Hanseatic League for business and economic integration. Previous examples have featured businesses dealing with integration as public policy of governments temporal and ecclesiastical. The Hanseatic League did piggy-back on existing towns though stimulating their growth. It did counter-point trade fragmentation by promoting trade integration. But its greatest strategic importance lies in showing businesses taking their most offensive approach towards economic integration: creating their own international structures that both transcended and reformed market areas provided by localities on their own. The Hanseatic League at its peak shows that economic integration is *not* a *given* from *government* but can be developed by businesses themselves. This lesson has important implications for contemporary strategists which shall be discussed later.

While the Hanseatic League was a series of cross-border enclaves working to create a proto-free trade area, the Zollverein was a customs union that foreshadowed in some respects a common market. The Zollverein, literally a toll or tariff union, emerged in several phases. Prussian officials established a common tariff for all of Prussia in 1818; several small states then joined the Prussian system. In 1833 the Zollverein was officially born with a treaty among the larger states of South Germany, except Austria. The Zollverein was low tariff or "liberal," mainly because Prussia wanted to exclude protectionist Austria [3, p. 241; 20, pp. 253-57]. Business strategies with regard to the Zollverein piggy-backed and counter-pointed. Many German businesses, some of which were outside the official area, piggy-backed on the prosperity which the union unleashed in order to build themselves up [13, pp. 336-44]. Some British businesses lobbied their government, which was already concerned with the emergence of the Zollverein, to do something about it. The British government said it could not stop such an association [13, pp. 121-22 and 133-34]. This was counter-pointing that got nowhere.

Our search for business strategies with regard to earlier venues of economic integration must broach the history of the most successful common market in the world so far: the United States of America. Upon ratification of the U.S. Constitution in 1788, a common market was legally in place. Sections 8 and 10 of Article I of the U.S. Constitution delineate key features

of that market. Article III of that document creates a Supreme Court, a precondition for preserving the constitutional underpinnings of the common market as well as interpreting the essentials of U.S. capitalism in a changing world.

Ratification instantly created a U.S. common market in law but not economic reality. The economic integration of the U.S. common market came from many factors and has been well analyzed by many writers, especially in recent years by Jonathan R. T. Hughes [14]. U.S. businesses played crucial roles in an economic integration of the continental U.S. common market. Many "proto-internationalized" themselves: they developed the integrating structures and procedures for their own expanding organizations that enabled them to facilitate the economic integration of a growing U.S. common market. The essential strategy for U.S. business to actualize continental economic integration was to give their own organizations the structures and procedures necessary to operate over longer distances. The economic integration of the U.S. common market reflected the institutional integration of its major businesses. Businesses shaped the content of U.S. economic integration by their own strategies, structures, scales, and scopes and in so doing effectively internationalized themselves. The Hanseatic League also showed business creating economic integration, but with no one given set of legal guidelines or adjudicators.

International Business and Economic Integration: Later Examples

In the latter half of this century the most successful common market to emerge has been the European Community. The EC has also been a venue of striking shifts in strategy by many European businesses in recent years. Until the mid- to late-1980s, many European businesses followed *defensive* strategies with regard to the emerging single market. These sharply contrasted with the *offensive* strategies pursued by such U.S. multinationals as Ford and IBM from the beginning and many Japanese multinationals from the 1970s on. While Ford and IBM and later Fujitsu and Toyota had strategies for the EC both as a whole and in its distinctive national markets, many European businesses "closed ranks in a series of defensive national mergers." Who co-opted whom here is difficult to say, but "politicians clubbed together with businesses to create a series of hugely inefficient 'national champions'" [11, p. 63]. These included Bull, which may in the future ally with IBM [8], and British Leyland, the car maker.

The 1980s were crucial for changing those defensive strategies. Alarmed at the spread of Eurosclerosis, many European business people lobbied the EC to implement a Europe-wide *deregulation* of industry and finance. From this soul-searching came the Single European Act, approved by EC governments in December 1985, which created Project 1992 or EC 92 mentioned in the introduction. The dismantling of technical and financial barriers within the EC has greatly facilitated European business strategies for piggy-backing on their single market [11, p. 63].

The general strategy for business is to "get big" to deal with a big market. Techniques for "getting big" are mergers, acquisitions, take-overs, and

joint ventures. The first three are different kinds of organic growth, while the fourth can bring synergy through partnership, not complete union. According to the European Commission, the number of mergers and acquisitions made by Europe's 1,000 leading companies leapt from 303 in 1986-87 to 622 in 1989-90. Many of these mergers were national. But in the twelve months to the end of June 1990, the number of cross-border mergers and acquisitions exceeded domestic ones for the first time. The number of joint ventures involving companies from two different EC states rose from 16 in 1986-87 to 55 in 1989-90. Looser cross-border alliances, such as the link-up between France's Renault and Sweden's Volvo, are also becoming popular [11, pp. 63-4].

While many European businesses are at last positioning themselves to piggy-back on the single market, some outside businesses have not been resting in their market penetration. The computer and related information technology industries have been vibrant arenas of competition from extra-EC companies. The activities of Fujitsu, the Japanese computer giant, have shown a keen awareness of accelerating economic integration on the European continent. In 1990 Fujitsu purchased an 80% interest in ICL, P.L.C., Great Britain's only manufacturer of mainframe computers [4]. This acquisition pushed Fujitsu past the Digital Equipment Corporation into the No. 2 spot worldwide behind IBM, which is also No. 1 in Western Europe. This was a sage addition: ICL was a well-managed enterprise with a healthy balance sheet and a significant though not dominating market share. It had about 20 percent of the British computer market and 5 to 10 percent of the Western European market. ICL had an important part of the U.K. market and an established beach head in Western Europe.

Fujitsu did not stop with the EC as currently constituted. Both the European Free Trade Association (EFTA) and the EC agreed in 1991 to forming a European Economic Area (EEA), which would link the two associations and perhaps serve as bridge for most or all of EFTA to join the EC eventually. The EEA is now in legal limbo, its proposed joint legal panel struck down by the European Court of the EC in December, 1991 [2]. Fujitsu is preparing for whatever happens. ICL, its EC beachhead company, recently established its own beachhead in EFTA, when it acquired Nokia Data of Finland [4].

The opportunities presented by an EC of 12 or 19 (with EFTA) or 24 (with some former members of COMECON) have intensified thought among business strategists [7]. Joel A. Bleeke, co-leader of McKinsey's International Management Center, has analogized the opening of Europe to the *deregulation* of many industries in the United States that began in 1975 when the Securities and Exchange Commission (SEC) abolished fixed rates for U.S. securities brokers. The U.S. experience with deregulation suggests that businesses need a ten-year roadmap, because the competitive environment changes twice--once when the market opens and again about five years later. An EC road map will, Bleeke believes, direct many large competitors away from their traditional roles as broad-line players into new, more profitable roles as low-cost entrants, focused-segment marketers, or providers of shared utilities. And businesses must remain open to significant changes in course,

since the actions required to survive in the early years of a market's opening are not the same as those that bring success in the second phase of open market competition [1, pp. 158-59]. Only the next decade will tell whether Bleeke is right, but his conclusions are so suggestive that I am pondering their applicability to other venues of economic integration now emerging worldwide.

There is considerable speculation today over whether these economic groupings may become fortresses or serve as stepping stones towards more global economic integration [17]. Businesses can take some steps to prepare for any eventuality. One approach is to explore and enter into *strategic alliances* with businesses already established within these groupings. A strategic alliance is different from a joint venture or long-term contractual relationship. It is, according to Kenichi Ohmae, a genuine entente; it means *sharing control* [19, p. 143]. Forging a workable strategic alliance is fraught with difficulty. But Ohmae argues that "properly managed alliances are among the best mechanisms that companies have to bring strategy to bear" on "the relentless challenges of globalization. In today's uncertain world it is best not to go it alone" [19, p. 154]. A huge challenge of globalization, I would add, is to anticipate the phases that process might involve not just for individual businesses, but for the world as a whole. If some or all of these emerging economic groupings become more protectionist and even hostile to outsiders in the future, businesses with strategic associates on the inside will be better able to weather these storms. And international business, through what may become *cross-fortress* alliances, can play constructive roles in keeping a more transcendent sense of globalization alive. This contribution would contrast sharply with the harm economic fortresses would inflict on long-term globalization.

A last word for strategists creating an historical context for considering today's economic integration: *apply the past but never become its prisoner.* This guideline has special relevance for what is going on in the western Pacific. In late January, 1992, the six members of ASEAN signed a mutual tariff reduction agreement and said they wanted an ASEAN free trade area in fifteen years or less [18]. ASEAN members are Indonesia, Malaysia, Thailand, Philippines, Singapore, and Brunei. Vietnam may join ASEAN sometime in that fifteen-year period. Japan is building the new version of its "Greater East Asian Co-Prosperity Sphere," mentioned above, with the possibility of conflicting economic blocs in mind. Japan is already a member of the Forum for Economic Trade and Co-operation, a loose economic grouping that embraces the six members of ASEAN plus Japan and the United States, Australia, Korea, New Zealand, and Taiwan. Japan already has substantial investments in ASEAN. It was first to recognize the importance of Thailand as a land not only of low-cost manufacturing but also of great potential consumer demand. Vietnam is the Thailand of the early twenty-first century. Japan has already established a significant number of joint ventures with Vietnam.

The United States, which did not appreciate the full economic potential of Thailand until the 1980s, is approaching Vietnam not as economic opportunity but still, despite recent overtures, as enemy. This short-

sightedness will cost U.S. businesses plenty, especially in positioning themselves to deal with possibly competing economic groupings in the Pacific. Vietnam, which could help U.S. business establish a major presence within an expanding ASEAN, is now frozen in images from the 1960s and 1970s. Many U.S. businesses are lobbying the U.S. government to end the trade and investment boycott of Vietnam [5]. But for the foreseeable future U.S. business will be imprisoned by its government in the U.S. past.

In conclusion, the formulation of contemporary strategies with regard to economic integration should be grounded in an historical context that embraces a panorama of geography, genre, time, and strategy. History shows international businesses adopting varieties of offensive and defensive strategies in relation to economic integration. A most compelling offensive approach is not to accept integration as a given from government, but for business to *create* structures of economic integration on its own. The most counter-productive defensive strategy in the longer term is to "hide behind the ramparts" surrounding an economic community. The EC illustrates the most dramatic recent shift from pathetic defense to creative offense, as many European businesses view the accelerating competition within a deregulated EC as *preparation* for further internationalizing themselves. Within the general strategies of offense and defense more particular strategies recur: piggy-backing, counter-pointing, and co-opting. Certain techniques for achieving different kinds of business bigness--organic v. synergistic growth or blends thereof--also repeat: mergers, acquisitions, take-overs, joint ventures, and strategic alliances.

Future research will refine definitions of strategy, elaborate *mixes* of offensive and defensive strategies for particular businesses, and spotlight several corporations as case studies.

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