

Response to Peter Buckley's Comment on "Fundamental Issues in Strategy"

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Peter Buckley's comments are of considerable interest and merit. However, they are directed only tangentially to the essence of my paper, which is about important new dimensions of competition, particularly "systemic" competition from China. He suggests that China may have clay feet, and that the West likewise has weaknesses. I certainly agree with the latter, and possibly the former. But we are still left with the questions of whether and how we should rethink basic models of competitive strategy, whether it's Porter's "Five Forces", Rumelt, Barney, Wernerfelt's, "Resource-based approach," or the "Dynamic Capabilities Paradigm" with which I and others are associated. In short, Peter is silent with respect to the new integrated framework I was trying to advance for strategic management scholars. Since no one has hitherto attempted such integration, I had hoped it would catch some attention -- and perhaps it eventually will.

A Systemic Response to Systemic Competition

The integrated framework I offer, with the rise of China, sees competitive advantage requiring rule-of-law countries¹ to work with each other and to work closely with business, and sometimes for businesses to work closely with each other. In the West, we usually see

¹ The World Bank placed China in the 48th percentile for domestic rule of law in 2018 (accessed at <http://info.worldbank.org/governance/wgi/Home/Reports>). Nothing similar exists in the international arena. See McCorquodale (2016) on the challenge of defining the international rule of law, and Jannace and Tiffany (2019) on China's lack of respect for international norms.

businesses and government at odds with each other, and cooperation among firms is severely constrained by competition policy and antitrust law when the businesses can in any way be construed as competitors. Absent new forms of cooperation, and smarter (dynamic) competition policy,² business will not be able to deal with systemic competition from China.

China has signaled that it does not accept a Western model of competition policy in the many parts of its economy where it sees vital commercial or security interests. In these strategic sectors, the Chinese state and industry work in tandem to compete against and undermine (overtly or surreptitiously) foreign firms. To compete, Western companies need to align with their governments, and sometimes with each other.

Yet Western regulatory authorities are still whistling past the graveyard. In 2019, the proposed merger of Siemens and Alstom, Europe's two largest participants in the rail equipment market, was blocked by the European Commission on the basis that it would have harmed competition in markets for railroad signaling systems and very high-speed trains. In the aftermath, ministers from France and Germany, upset with the Commission, put forward a "Franco-German manifesto for a European industrial policy fit for the 21st century,"³ which among other things would make changes in the European competition framework because "there is no regulatory global level playing field." Clearly, current competition policy in Europe, the US, and in many other countries does not take systemic competition from China into account. As strategy

² For more on dynamic competition, see Sidak and Teece (2009), Teece (2012), and Teece (2018).

³ <https://www.gouvernement.fr/en/a-franco-german-manifesto-for-a-european-industrial-policy-fit-for-the-21st-century>

scholars we need a framework that encourages thinking about—and enables analysis of— such matters.

If anything, Peter sees cooperation between firms and governments as problematic and invokes concerns about the US “military industrial complex”. Such concerns have a distinguished post-World War Two pedigree. However, such cooperation in the West—aimed at expanding the size of the military—is a pale shadow compared to China’s “military-civilian fusion,” which, as described in my article, seeks to integrate the tools of national security and economic development.

Peter acknowledges China’s imposition of “platforms” on foreign firms (p.8) and its “inculcation of a Chinese model into host countries” through the Belt and Road Initiative (p.3). But he doesn’t directly address the other issues I raise about China’s recent behavior, such as market access limitations, forced technology licensing, and cybertheft, all of which shape the competitive process. And that’s the key. My article is trying to explain how the competitive process and the accepted “rules of the game” in international commerce have changed with China’s rise to the apex of global manufacturing, and how competitive strategies at the enterprise level and policies at the national and global levels must also change, along with our theories of strategic management and international business.

For strategy scholars to meet the challenge of this moment, it is not enough to just dust off traditional work on non-market strategies, which is what Peter seems to suggest. Rather, what

is needed are hybrid competitive and cooperative strategies that involve multiple nation-states presenting a common front to Chinese state-directed (and oftentimes state-owned) enterprises. In today's world of crumbling international government-to-government cooperation, this is likely to be hard.

Strategic Management and International Business

Peter briefly takes me to task for ignoring literature that has already addressed the three questions I posed for strategic management scholars. But the primary source he cites is JIBS, the leading journal of international business. I explicitly point out (p.105 and pp.133/134) that strategic management scholars have tended to view "host country" issues as a concern they can leave to international business research, and that the separation of the two disciplines is unhealthy for both. I have written previously about how strategic management frameworks could inform international business research (Teece, 2014), and, in my *Strategic Management Review* article, I looked at it from the other direction.

I'm nevertheless grateful to Peter for taking the time to comment on my essay about the need for strategic management research to take greater notice of the complex cross-border issues that have been left up to now primarily to the international business community. Coming from a long and distinguished tenure in IB studies, he is naturally frustrated that I don't consider many of the fundamental questions we face today to have been answered by research in the past, including his own excellent work from which I have learned a great deal. Aside from this difference of perspective, I think we may mostly be in agreement.

Historical Comparisons

That said, I want to respond to Peter's comments about Japan as a comparative case for understanding the rise of China. Post-war Japan was a working democracy; China is governed by a Leninist clique. Japan is a mid-sized economy occupying an archipelago. China is subcontinental, with the largest population in the world. Japan operated and continues to operate within the rule of international law, and over time came to respect and honor intellectual property, and to open up many of its markets for manufactured goods.

China's ambition is far more assertive and influential than anything Japan planned near the height of its post-war industrial growth (Vogel, 1985). The phrase "Chinese Dream," promoted by President Xi since 2013, invokes a rejuvenation of China's former imperial dominance (Tsai, 2019). Japan did not pursue anything like what Orville Schell terms China's "reckless policies," including militarizing the South China Sea and eroding Hong Kong's autonomy (Schell, 2020).

Peter's later suggestion that China may represent "a 'Soviet Union plus Japan' competitive challenge" is an insight worth exploring, particularly for theory building. As I noted in the article, China's approach to supporting domestic firms may be so distinct from Japan's historical policies that a one-to-one comparison may not be helpful except to draw out the differences.

The Time and Place for Nuance

Peter notes that I see issues too much in black and white. He is correct, for instance, that the US hasn't always lived up to the "Western" archetype I described. But one of the main points I

wanted to make was that China has been undermining international norms, not that Western economies are ideal.

Put differently, I'm interested in the difference in kind. China and the West are not on a spectrum, they're on two trajectories that don't join anywhere. Unless the fields of strategic management and international business reconceptualize competition and the pathway to competitive advantage, we are not going to build strategic management theories— nor design competitive strategies and competition policies—that are relevant to the global situation today. The strong contrast that I draw can assist in such reconceptualizing. Once new theories are built, nuances can be added. If one starts by focusing on nuances, attempts to reconceptualize will be foiled. That's why I grant many of Peter's points but nevertheless choose to discuss the global situation in broad strokes. Abstraction is necessary to build new theories and frameworks.

Yet nuance can be a distraction when it comes to fashioning new frameworks. As an example of nuance, Peter argues that China has “weaknesses” (p.6), which include the inefficiencies of heavy state intervention. This leads him to question the durability of the current Chinese system. Time will decide whether China proves to be a paper dragon. But the outcome is irrelevant to my portrayal of China as actively stretching or subverting international norms of commerce in ways that require a concerted response by firms and their home-country governments, along with a revamping of the strategic management frameworks that scholars explicitly use and senior executives implicitly use.

Peter concludes with a call for examining “the faults of ‘the Western system’” as part of the reform of strategic management research. I agree completely that there is an urgent need to correct flaws in the Western system. This topic has been of great concern to me.⁴ While I nod to this in the article in question (“Domestic priorities must shift radically to improve initial conditions — infrastructure, governance, etc. — or else home-country firms will find it nearly impossible to build a sustainable competitive advantage.”; p.134), I view it as largely separate from the question addressed in the article, namely, how can strategy scholars update the “fundamental issues” of their discipline to guide managers (and governments) grappling with the systemic challenge posed by China and other state-capitalist actors in matters of technology, trade, and investment.

In conclusion, I agree with Peter’s notion that Western democracies need to improve their internal conditions and cross-border coordination, but I don’t agree that this would constitute a convincing answer to the China challenge. First, the reform of the West is a long-term project. Second, China has proved itself willing to not just bend but also break the rules of international commerce (Petricevic and Teece, 2019). This is why it is vital that strategic management scholars place greater emphasis on how individual multinationals can coordinate with and influence home-country efforts toward integrating China into the world economy in a fair and reasonable manner. This will require new frameworks, such as the one I suggested in Figure 2

⁴ See, e.g., “The New Enlightenment: Major Themes,” available at <https://www.panmure2019.com/major-themes>

of my article. I invite Peter and other scholars to join in and do the necessary “creative destruction” and reformulation to keep the field of strategic management vibrant and relevant.

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