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# Globalization Strategy Failure: The American Automobile Industry

**Marcel Collin***

Doctoral Candidate at the University of South Florida, United States

***Corresponding Author:** Marcel Collin, Doctoral Candidate at the University of South Florida, United States.

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**Abstract**

The three major American automobile manufacturers have faltered in their attempts to become global leaders. This failure reveals deeper issues and need for reforms to be examined here. The changes in consumer behavior, the nature of the product, the lack of access to capital markets, and the repeated state assistance have led to a strategy of survival incompatible with the realities of post-Fordism economy. The solutions of state interventions and changes in capital structure are only temporary steps until the social role of the industry is recognized.

**Keywords:** Capitalism, Liberalism, Economic Democracy, US Automobile Industry

The most recognized model of Capitalist enterprise is the American large corporation such as Ford Motors company, to the point that it gave its name to a certain form of enterprise, the traditional Fordist model or scientific style management innovated by Taylor. Recent technological development in manufacturing techniques as well as the pervasive influence of robotics and telecommunications have marked a new era defined as post-Fordism. This may be a sign that the time of the traditional model of the successful American large corporation has passed. A necessary factor for the success of the American enterprise is the "embedded neo-Liberalism" defined as the subordination of politics to the economics, giving the state the role of insuring the freedom of the market mechanism [1]. In this perspective, the role of the state is a facilitator of and the guarantor of free competition. It is not, therefore, just the "laissez-faire" principle of state non-interference but giving the state an active role in the economy. Although globalization has been the tenet of American trade policy and has been strongly endorsed by the large multinational corporations as an essential component of Liberal Capitalism it has backfired against the most prestigious American corporations in Europe [2]. While in 1970, European politicians were expressing fear of the domination of Europe by the large American corporations the initial withdrawal by Chrysler was followed by the two other American automobile manufacturers [3]. The mantel of global automobile manufacturing has now been taken by either European or Japanese manufacturers. Another failure has been the negative social consequences of corporate decisions, best illustrated by the unilateral decisions to close manufacturing facilities with disastrous consequences on local communities. Examples are the closure of the GM Lordstown plant in Ohio in 2019, the Buick plant in Flint in 1999, and the Stellantis Belvedere plant in Illinois in 2023. Even though Schumpeter also predicted the decline of Capitalism his emphasis was different than the present study. Our explanation also differs from Marcuse's view of the consumer as a mere victim of the consumerism environment [4]. It is proposed that the consumer had an important role in the transformation of the industry through its expectations. The workers and citizens become transformative by their demands on an industry having such a social and political impact, leading the industry into a new phase of democratic economic decision-making, and resolving the tension between market demands and social responsibility. Following the suggestion by Gibson-Graham that alternative industrial organizations exist in the midst of a Capitalist dominated economy, it is proposed that time has come to consider a similar alternate organization for such emblematic industry as the automobile industry [5].

## Literature Review and Hypothesis

### Literature Review

The foundations of Liberal economics were laid by Adam Smith praising international competition. The tradition continued with many others to cite a few, all putting the role of free market as the motor of economic activity [6]. In that tradition, previous research on the rise of the automobile industry has focused on its spectacular rise but stopped short of going into its more recent decline. Comparative research of the automobile vs. tech industries has pointed to the dissimilarities in the rate of innovation and life cycles, inferring that survival is easier in the tech industries [7]. A study addressing the competitiveness of the automobile industry in the global trade points out that the US is classified as one of the four top producers, along with Germany, Japan, and China, but, unlike the others, the US is a low exporter and high importer [8]. This illustrates the decline of the US automobile industry in global trade. A theory of the cause of decline is attributed to the lower competitiveness [9]. Going further in researching the causes of globalization failure, Rodrik has proposed first in 1997 that the demands form international competition conflicted with the need for more social spending [10]. The conflict between market imperatives and social needs has resulted in two models, the socialist vs. capitalist, one pointing to the need for the state to protect social needs and the other submitting the state role to the protection of free market rule The international competition further imposed the rule of the market, with negative social consequences requiring more intervention from government. Further contesting the absolutism of Liberal thinking and the rule of the market, the caption of a new video by Rodrik in 2022 says:

"Policymakers must rethink neoliberal economic orthodoxy in order to build a more resilient, equitable, and sustainable global economy." Another contribution to the possible causes of failure of globalization identifies the "new" discontents as the left outs in developed countries, blaming the rules of the games made by the top 1 percent only for their benefit [11]. The author proposes that not only the rules must be changed but that the Liberal system itself is in question. The solution rests, according to this author, with the government or state taking the initiative for transformation.

## Hypothesis

The present study takes on the challenge proposed by these two authors to step out of the traditional Liberal economic thinking but adds new reasons to do so. These reasons, it will be offered, lie inside the system itself rather than arising from unwanted consequences. It will be demonstrated, using the case of the automobile industry, that this industry has deviated from the laws of Liberal economics for a long time in its product, market, and capital allocation. The responsibility, however, should not rest so much on the state as on the diverse stakeholders in the economic process. It is calling for a new strategic framework with decentralized decision-making more responsive to local market and consumer needs which indirectly will generate higher profitability and sustainability.
This research is intended to demonstrate the following:

- The automobile product is untraditional in the context of globalization, being heavily dependent on national consumer preferences and often taking the aspects of public good.
- The consumer demand for automobile transportation has evolved into a demand on a public good, demanding a cultural shift in management
- The capital requirements cannot be satisfied by the capital markets which have become highly speculative in the global environment and new modes of financing must be found.
- The necessary state interventions in tariffs and capital assistance have contradicted the stated goals of globalization and are not a long-term solution.

The following exhibit shows the proposed set of actors, variables, and processes.

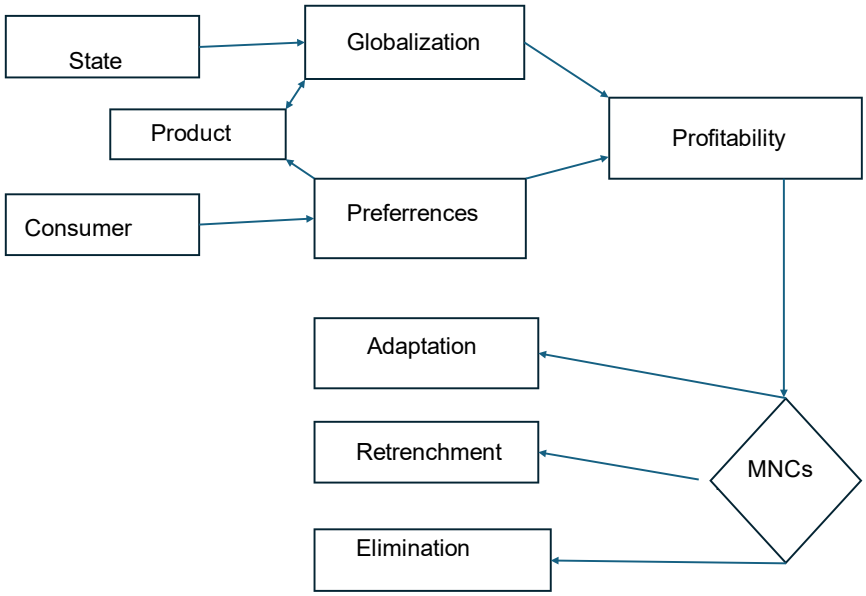



**Exhibit A**

## Methodology, Variables, and Plan of Study

As methodology, this is a case study of a singular industry with emphasis on process-tracing. Secondarily, it is an historical analysis as pioneered by Weber, Durkheim, and de Tocqueville and recently used by T. Skocpol and al. and others using the historical process tracing, as proposed by George et al. to interpret the evolution off the automobile industry and identify the causal factors of its decline [12]. This methodology is selected to exploit the internal knowledge of the author of the automobile industry both in Europe and in the U.S. The proposed relationships are shown in exhibit A above. The three actors are the state, the consumer, and the MNCs (the American automobile manufacturers in this case). The state promotes globalization via tariff and capital flow policies (attracting foreign capital via monetary measures). The consumer expresses his/her preferences based upon price and quality. The product is affected by consumers' preferences and globalization (adaptation to emission standards for instance). All of these have a negative effect upon profitability, particularly profitability in foreign countries, as has been observed in the European subsidiaries of American companies. The manufacturers are then faced with three options: successfully adapt and become true global entities, retrench and focus on the domestic market, or simply exit. The hypothesis is that the American manufacturers chose the retrenchment strategy due to their inability to become true global companies and their reluctance to exit. This strategy can be called a survival strategy. This study being qualitative in nature will only assign strong/weak values to each variable.

The historical statistical data was obtained from the government's bureau of transportation (www.bts.org), the specifics on Chrysler European operations from Autoweek (May 31, 2013). The case selection is primarly Chrysler as the most typical of American auto manufacturer decline while Ford and GM are shown to follow.
Plan of study

- Revised assumptions: Liberal Capitalism or Social Institutionalism?
- Mutation of a product and consumer: The social nature of the automobile
- Challenge of the new financial environment
- Ultimate Failure: Globalization and the case of American automobile companies in Europe
- Old Remedies: state interventions, closures, new capital structure, public ownership
- New alternative: The "Rhenan" form of capitalism

## The Failing Old Assumptions of Success: Embedded Neoliberalism

The best way to identify the unique Neo-Liberal embeddedness in America may be to compare America to another country, known for its adherence to a more socialistic approach to economic policies, France in this case. It seems long overdue to revise A. de Tocqueville findings since the 'great reversal", i.e., when America has become more inequal than the rest of the Western developed countries, including France, as demonstrated by a recent study from economist T. Piketty [13]. The difference in attitudes toward economic inequality is perhaps the most significant cultural gap between the two cultures. A recent study for UNRISD (United Nations Research Institute for Social Development has proposed five different social paradigms, two of which will be considered here because they represent closely the Liberal/Neo-Liberal paradigm for the U.S. and the Social-Democratic paradigm for France.

The field of study defined as Economic Sociology has focused on the link between cultural/cognitive embeddedness and economy, furthering the meaning of "embeddedness" which was first used by Polanyi to characterize the Liberal society as a social order based on Liberal economic values [14]. The term was also adopted by D. Harvey but in a different

sense, to characterize a Liberal economy constrained by social values. or:

"A form of political-economic organization … surrounded by a web of social and political constraints and regulatory environment that sometimes restrains but in other instances led the way in economic strategy". For example, the meaning of freedom can be interpreted as freedom from tyranny or religion, as the case in France, or freedom of enterprise and rule of free market, as commonly interpreted in America [1]. The property rights are, therefore, more contingent and the faith in the free market more limited in France. The principle of equality is more important for French than for Americans and its meaning different, as it implies more concern for end results, i.e., fair distribution of wealth. Equality has been interpreted as "equality of opportunity" in America, which means fair rewards for meritocracy, and tolerance for economic inequality if justifiable by effort, not absolute equality of economic end results. The analysis of American values by D. Harvey closely parallels the proposed definition of the American values in this study because the U.S. is almost the perfect model of a neo-Liberal economy [1]. France values, on the other hand, are very influenced by the two principles of laicity, i.e., emancipation from the Catholic church as well as arbitrary government dominance, and belief in the state duty to provide for welfare/safety nets. In conclusion, when looking at American values in contrast to other countries and particular the values impacting the economic context, the following can be a summary: belief in market as the rule of economic life, minimum intervention of government in economic matters, free international trade and flexible exchange rates, and free movement of capital. All these factors, it will be shown, have either hampered the success of the American automobile or have been discarded in the industry's corporate strategies.

## Rise and Decline of an Industry

The US automobile manufacturers started in the early part of the twentieth century as typical wealth maximization enterprises with the limited goal of satisfying a new customer need for individual transportation. The goal was then very simple, the customer's needs well defined, the product relatively unsophisticated, and the capital requirements easily satisfied. This simple industry evolved into a dominant industry in the domestic market, employing hundreds of thousands of workers directly (and many more indirectly in the related supplying companies), and having a very significant social impact. The industry reached a level of maturity with a decreased ability to generate an attractive Return on Investment (ROI) for potential investors. The sophisticated customers also demand that the industry better address costly safety issues, imposing new pressures on low profitability. Finally, the large number of employees not only created a sense of social responsibility but also attracted the attention of the political entities. We witnessed an increased involvement (or interference) of the political entities in the decision-making process. The presence of social and political pressures made purely economic decisions more difficult as seen in the case of objections to plant closures. Under these multiple new demands put upon the US automobile manufacturers, the simple goals became increasingly compromised. First, the increased cost of the product due to the safety requirements, the rising price of materials, and the increased labor costs, caused the goal of wealth maximization to become unachievable as illustrated by the low ROI (around 3%), preventing the access to capital markets for required expansions or retooling. In a capital market dominated by technology industries where high ROIs can be obtained, the automobile industry is not competitive. The increased social pressure from being a dominant industry, employing such many people, prompted the automobile industry to become politically involved and exercise its political clout (or power) to sway political decisions in its favor. First it attempted to secure a better ROI by demanding protection against foreign competition, and then by negotiating politically acceptable decisions which had social impact. Lastly, the requests became more fundamental, turning into financial assistance for survival in the case of the 2008 financial crisis. The Third goal of global expansion was also compromised. The intervention of the US automobile in the international markets first mirrored the hegemonic position of the US in the world after WWII. The US automobile industry took advantage of the US economic power over Germany and Japan first and then in France and the UK. The expansion seemed to progress smoothly until one Japan manufacturer, Toyota, turned the tables around in the late 1950s by opening operations in the US. A modest intrusion at first became a major presence in the 1970s (now selling close to 1 M in 2017). The international (and later global) strategy of the US automobile manufacturers was very aggressive until the 1970s but has been on a decline since. The decline has been punctuated by the catastrophic withdrawal of Chrysler from Europe in 1976, selling the whole of European operations for $1 to Peugeot (PSA). The withdrawal of Ford has been more progressive and more recent, shedding its Jaguar, Land Rover, Aston Martin, Volvo, and Mazda after the 2008 financial crisis. It is currently rumored that GM is considering selling its European operations to Peugeot (PSA).

## Social Impact of the Automobile

The automobile has been from the start a status symbol and a product desired by all Americans. This principle has guided the marketing and manufacturing strategies of the industry. The impact on consumer is therefore important but the incorporation of the automobile in the American psyche goes both ways. It started as a consumer need to which the industry responded in a very capitalistic way: sell what the consumer needs and make as much profit as possible. Back then there were no issues of quality, damage to the environment, safety etc. which became issues later. People now expect to own or use an automobile as a necessary ingredient of their life.

The new way of life, centered around automobile ownership, has had a profound impact on the infrastructure of the nation by allowing the spread of the metropolis and the migration of population in suburbs without the need for public transportation. The dream of a suburban home is tied with the dream of two automobiles per household. The relationship of the automobile to the infrastructure is also important. The automobile requires public investments in

infrastructure in the form of highways, bridges etc. No other industry puts a similar demand for public funds. The costs associated with these investments are not included in the cost of the product. In this sense, the true cost of automobile ownership is much higher if we should include these indirect costs. This raises the issue of public choices where in lieu of looking at transportation holistically and evaluating all alternatives, there is a bias toward favoring the expanded use of automobiles. If all costs of automobile ownership are considered, the product is largely subsidized. How is it possible to call it a perfect consumer product satisfying a consumer need for a fair price when public funding and support is necessary? In addition, the multiple interventions and assistance by public funding to avoid the failure of the auto companies adds to the public cost of the product. In brief, how can a product so largely subsidized by public funds really be considered a pure consumer product in a Capitalist sense?

The social impact of automation and particularly its effect on the workforce has been analyzed by Marcuse in the following terms [4]:

"The mechanization of labor modifies the attitude and the status of the exploited … mechanized work remains stupefying, inhuman slavery" [4].

The combination of globalization and automation has become more crucial as globalization has put intensified pressure on corporations to compete and reduce costs, thus increasing automation.

## New International Finance Context

Considering now how the international monetary policy has allowed the freeing of capital markets, and impacted the automobile industry, Gilpin notes:

"Freeing financial markets facilitated reorganization and transformation of international business. Increased integration of national financial markets encouraged creation of a single, globally integrated market for corporation ownership and corporate takeovers." [6].

Ford prized itself as a global company, having one corporate structure and one integrated financial system with the capability to do long range financial planning for any location in the world. Thus, Ford took full advantage of the freedom of financial integration provided by a flexible environment to manage itself globally until its withdrawal from Europe. The European manufacturers, on the other hand, have been less aggressive, limiting themselves to re-acquiring the assets of US manufacturers within Europe. The use of FDIs (foreign direct investments) has been a new phase of foreign manufacturers intrusion in the U.S. German manufacturers (Mercedes and BMW) as well as Japanese manufacturers, and particularly Toyota, have use FDIs to access the American market. So generally, when the flow of capital across borders has been exploding, US automobile manufacturers have played a decreased role. This retrenchment seems to indicate a failure of managerial capacity.

## Failure of Globalization Strategy

The spectacular rise of China on the international scene is illustrated in Appendix A. China is producing 30+ million vehicles whereas the US is only producing 10 million Statistics, 2024) [15]. It is often proposed that international expansion supplement domestic sales and contribute to corporate growth. In that line, Ford did acquire facilities in England in 1911 and in Germany and Australia in 1925. GM did acquire Vauxhall Motors in England in 1925 and Opel in Germany in 1929. The end of WWII signals the start of hegemony for the US and, under its leadership, a period of liberalization of international trade. The hegemonic power of the US allowed the domestic auto makers to 'invade' the countries under the control of the US, most notably Germany, Japan, and to a lesser degree the other countries of Europe. Continuing on, we witness the expansion of Ford Europe through its subsidiaries in Germany and England, The creation of GM Europe in 1970, the acquisition of the French brand SIMCA by Chrysler in 1970. The number of automobiles produced by the three American automobile companies make them the top producers in the world. From this perspective, nothing seems to indicate an end to the continued expansion and world domination by the three US automobile giants. The 1970s mark a resurgence of neo-liberalism (conservatism and laissez-faire) in domestic politics with the Regan presidency but it is also marked by the end of the Cold War and decline of hegemonic power of the US. This causes the liberalization of international economic policies to slow down. The oils crisis of 1973 will prompt protectionist measures such as the 1981 'Voluntary Restraint Agreement' imposed on Japanese auto manufacturers. The financial crisis of 2008 will see the bankruptcies of GM and Chrysler and their bailing out by the Federal Government, injecting $ 60B via the TARP program. We will witness the sales of Chrysler Europe and GM Europe, the disengagement of Ford from its European subsidiaries, and the sale of Chrysler itself to FIAT. The automobile industry remains highly regulated and is in an unfavorable position in a highly competitive international market with mercantilist nations supporting their own automobile industries. Through superior R&D, refined manufacturing processes, and exemplary quality controls, Toyota asserted itself as the major winner of international competition in the world automobile industry [15]. The dominance of the keiretsu, and particularly in the case of the vertical keiretsu surrounding the Toyota automobile company, has allowed Japan to foster an industrial policy of export oriented industrial development. GATT was a success in reducing tariffs from around 30% to 6% and allowing an explosion in the volume of international trade [16]. MNCs, and the automobile industry particularly, benefited greatly from the reduction of tariffs. We witness a rapid international expansion of the US automobile during that period. As the GATT succeeded, however, new concerns emerged with the ability of

the US dollar to continue as the world reserve currency due to the US trade deficit and the mounting national debt. This resulted in the de facto devaluation of the dollar in 1971 and the creation of a new organization, the WTO, in 1993. The principles upon which the WTO is founded, i.e. the goal of providing a framework and stability for access to international trade to many member countries, are generally well accepted. The WTO also had power for conflict resolution and enforcement of penalties which were lacking in GATT. WTO also facilitates communication and dialog among countries, leading to more cooperation in matters of trade primarily, but sometimes in other matters as well. The opponents of WTO point, however, that WTO represents the interest of major DCs (Developed Countries) at the detriment of LDCs (Less Developed Countries) and that the regulations hinder their development. The environmental standards imposed on LDCs are presented as such a negative regulation. The enforcement of Copyrights by MNCs are also quoted as an impediment to dissemination of know-how or access to resources. Numerous protests at the sites of WTO meetings attest to the growing popular opposition to WTO. While the Heckscher-Ohlin model of international trade is the widely accepted theory among economists, R. Gilpin noted that it does not reflect 'actual trading patterns' [6]. The author points to the important role played by intra-industry trade, taking place among DCs in the same product sector. A good example is the import and export of automobiles between the US, Japan, and Germany. The interesting question raised here is that it contradicts the Ricardo law of comparative advantage, a foundation of liberal thinking in international trade. It could be argued, however, that this is not trade in the same product sector. The import of German cars into the US pertains to the luxury segment of the automobile industry and there is very little export of Cadillacs, the luxury American brand, into Germany. The case of Toyota is more difficult to argue. It may be that the public perception of US automobiles having poor quality makes Toyota a differentiated product from the domestic product. If we accept these propositions, the Gilpin counter argument to the Heckscher-Ohlin model is not applicable. It is also recognized by R. Gilpin that other factors distort the endowments theory and among them the geographical advantage where a certain region has long been associated with a particular industry and has an advantage over start-ups. This is the case of the automobile industry where Detroit in the US benefits from a long tradition of producing automobiles. An accepted trade theory is the Leontief Paradox pointing out that whereas the US has a competitive advantage in labor intensive goods (agricultural products) it exports mostly capital-intensive goods (manufactured products). This was 'resolved' by the introduction of the concept of human capital whereby investments in education and know-how to transform the natural rule. By large investments in those sectors, a country obtains a competitive advantage in an area where it would not have it naturally. In the case of the US automobile industry, tide has changed from the period when the industry was able to invest massively in R&D, the 1950s, and had a competitive advantage, to the present period when such investments have diminished. Foreign competitors have been able to invest and regained the advantage. A third exception to the generally accepted trade theory is the major influence of MNCs in the pattern of international trade from two points of view: the behavior of the MNCs and their role in the competitive advantage among nations. The strategic behavior of MNCS is important because, as pointed out by R. Gilpin (ibid,), in the 1990s, over 50 percent of American and Japanese trade was intrafirm transfers. The pattern of these intrafirm transfers is dictated by the financial strategy of the MNCs via the establishment of transfer prices and their critical role in FDIs (47.1 percent of outward FDI stocks in 1960). The competitive advantage of a nation also depends upon the success of a corporation in the domestic market before it expands into the international markets. Here the US automobile industry is a good example. Before the emergence of the Big Three, there was no presence of these MNCs on the international scene. An expansion of the role of MNCs in international trade is provided by Robert O'Brien and Marc Williams in their analysis of transnational production [17]. While acknowledging the bulk of R. Gilpin analysis, these authors add some new elements. They propose that the internationalization of production facilities was driven by the need for MNCS to better compete against the local companies in their own market, notably by transferring superior know-how from the domestic market. The US automobile industry enjoyed such superiority until Toyota proved the same but in the opposite direction.

Finally, it is important to note that R. O'Brien and Marc William devote a section to mergers, strategic alliances, and joint ventures as significant changes in MNCs organizational principles and this will be analyzed further when looking at the future of US automobile companies.

The graph provided in the statement of hypothesis above is an attempt to illustrate the variables that may influence the success or failure of an MNC (auto manufacturer in our case) in the global environment. We have noticed that historically, domestic auto manufacturers benefited from the support of the US hegemony and a world dominated by a mercantilist philosophy. We can trace the beginning of Neo Liberalism with the GATT negotiations in the 1960s. At the time, the US manufacturers were in a period of foreign acquisitions. Notably General Motors founded GM Europe, Ford founded Ford Europe by consolidating several acquisitions. Chrysler completed the creation of Chrysler Europe by consolidating its acquisitions. The first major failure can be identified as the catastrophic failure of Chrysler Europe in 1970. The sale of all operations for $1 was a public recognition of the inability of a US MNC to manage global operations. It is an event in the business world that mirrors the military loss in Vietnam in the political scene and signal the decline of American hegemony. The failure of Chrysler Europe will be followed much later with the withdrawal of GM from Europe in 2017. Ford is maintaining its European operation but continues to suffer losses year after year and it has been obliged to sell major acquisitions such as Land Rover, Jaguar, and Volvo. After the loss of Chrysler Europe, the other major setback is the implantation of a major foreign manufacturing facility by Toyota in 1981. This has demonstrated further that not only were the US manufacturers unable to pursue a global strategy, now they were threatened in their own country.

## Current Solutions: Bailouts and Alternate Capital Structures

In the case of Chrysler, the government provided $3.5 billion and later offloaded the company for a nominal amount to a foreign competitor [18]. A large portion of ownership was still in the hands of the VEBA fund (retirement account for employees) but it was later purchased by FIAT to secure 100% ownership. The new entity has the characteristics of a multinational conglomerate. The capital ownership, the manufacturing, and research centers are dispersed around the world, the corporation is incorporated in the Nederland, and the corporate office is in London, England.

The most notable critic of the bailout was Noam Chomsky arguing that this was the perfect occasion to revise the goal of these companies and transforming them from their narrow purpose of producing automobiles, at which they had failed to 'transportation' type companies [19]. The repurpose would refocus the corporations toward their social purpose from the goal of maximizing shareholders return. This would be in line with our proposal to reform the governance in general. In other words, the purpose of corporations needs to be the satisfaction of society in general rather than only shareholders. The traditional look at international financing has been that private capital infusion in national economies, particularly in DCs (Developed Countries), has been the engine of international finance and the reason for the explosive growth of international investments. The role of the 'official' non-private lenders such as the IMF and the World Bank is more important for LDCs (Less Developed Countries). It is also felt that Financial Aid and loans by international institutions are tainted by politics and impose a neoliberal agenda to the borrowing countries. This section will examine a new development in private international investment, with the increasing role of public funding from a host country. Somewhat related to this issue would also be the increasing importance of sovereign funds in 'private' international finance.

### Public Involvement" Public Investment and Mixed Capital Structures

The Dongfeng group has attained international notoriety when participating in the financial salvage of the Peugeot (PSA) French automotive group in 2012. When researching the history of the Dongfeng group, it becomes more apparent that the group had established important international joint ventures long before 2012. The European financial community did not take notice, however, until 2012. The importance of the Dongfeng group when considering the automobile industry is its apparent success in a socialist environment and its ability to take control of foreign private companies while being perceived as a public owned entity. If such financial success for a corporation in a non-traditional economic environment is possible, it would help our theory that financial success may happen in any environment. Looking more closely to the history of Chinese economic policy reveals that thing are complex. Kate Hannan performed an extensive analysis of the Dongfeng group and its struggles inside the Chinese political economy, emphasizing the importance of conflicts between the central party, the local authorities, and the management (and workers) of state-owned enterprises [20,21]. The group has been able to list itself partially on the Hong Kong stock exchange and is considering listing on the NYSE, insuring itself sources of private financing, along its primarily public funding. The numerous joint ventures the group is involved in show an image of a very cooperative and non-ideological approach to business. The decentralization of its R&D around the world and its ability to stay at the forefront of new technologies such as electric cars show its ability to adapt. The conclusion of the author is that serious conflicts still exist and more likely will sharpen as the urban unemployment rate is expected to rise and cause further social unrest. Our conclusion is that economic environments may vary, and the traditional liberal economic philosophy is not a prerequisite for industrial development, but organization needs to be adaptive, creative, and not ideological. The final question is: does the Chinese model conform to the new economics? The presence of conflicts reveals that far from promoting consensus, the so-called rule of the people represented by the Party is often opposed to the local will of the people and at a finer level the will of the company management and employees. The ideal model would suggest that the company management and local authorities should have more autonomy to debate their economic goals whereas the role of central (or better federal) government should be limited only to issues that are broader in scope. This section presents an evolution of the capital structure of the automobile MNCs to demonstrate the increasing influence of sovereign and/or public financing and the progressive elimination of private financing. Unfortunately, however, increased public funding has not meant democratization of the decision-making process. How ironic to think that the future automobiles sold in the US may be Chines built but people still would have little impact upon the management of the corporations themselves.

### Further public involvement: the 2008 crisis

The 2008 bailout of the auto industry generated a lot of justified criticism and put into question the legitimacy of the industry as rue capitalist enterprises. General Motors was rescued by the government at the rate of $65 billion and following a restructuring which left the previous shareholders without any value for their shares. This example and the previous interventions illustrate the growing involvement of public entities and point to the need for a new culture of economic decision-making.

### Summary of Findings and Recommendations

The failure of global strategy by the American automobile industry, and more specifically Chrysler in our hypothesis, has been the conjunction of several causal variables taking their maximum impact at the same time. The unexpected effects of globalization promoted by the state were the lower tariffs allowing the entry of competitive foreign products in the domestic market. These products gained the preference of customers due to their superior quality at similar price. Facing the complaints from domestic manufacturers, the state (Reagan administration) set up a limit on import but at the same time deregulated the transfer of capital flow from and into the US. The foreign manufacturers were prompt to adapt their strategy by shifting to direct investments in the US. (example Toyota in Lexington, Kentucky). The

increased competition in the domestic market forced the domestic manufacturers into a domestic survival strategy and an abandonment of their foreign investments (which never generated a profit). This focus on domestic profitability also failed as illustrated by the necessity of bailouts by the state.
Reflecting on the goals of corporation.

Redefining the goal of the corporation as a provider of goods as required by society instead of profitability, Robert Dahl poses the following question in his chapter on Common Goods:

"Might not the diversity and conflict of interests so characteristic of democratic political orders be reduced by fundamental changes in the economic order – if, say, economic enterprises were publicly or socially owned?" [22].

Dahl follows, however, with the recommendation that ownership is not the necessary solution but rather that economic decision-making must be decentralized and the involvement of local communities in what affects them economically must be implemented. In another condemnation of Capitalist hegemony, in their book titled 'The End of Capitalism (As We Know it)' J. K. Gibson-Graham, taking a feminist critical standpoint, says how she is determined to reinvigorate our economic imagination to challenge the accepted status quo and deconstruct the hegemony of Capitalism [5]. The automobile industry is an important component of the industrial landscape in developed countries such as the US and Europe, both as a contributor to Gross National Product (3% of US GDP in 2020) and a major employer, directly or indirectly through the numerous suppliers' companies (1 million employed by the manufacturers and close to 3 million with associated industries in the US). It has, however, two sides, a bright one and a darker one. On the bright side, with over 90% of households having at least one vehicle, the automobile conveys the image of a shiny consumer product, giving its owner freedom of movement, access to economic and social opportunities. It also reflects in the owner a sense of social and economic success, fulfilling the image of accepted inequality in a liberal dominated world. It has acquired the ability to influence the political agenda as a symbol of national pride. South Korea, as an example, has become known to the world due to the success of its automobile industry. Germany is known as the producer of luxury automobiles. The US motto is (or used to be) "What is good for General Motors is good for America". On the darker side, one needs only to look at Detroit, the home of the three major automobile companies in the US, to see a picture of urban devastation and widespread poverty next to some islands of exclusive and thriving communities. Detroit and its suburbs are a vivid illustration of the US social divide between a large underprivileged population and an ultra-privileged minority. In addition, the success of the industry is bolstered by its ability to influence national policies in its favor. The lag of the US in public transportation can be in a large part attributed to the ability of the automobile industry to influence political officials to direct public funds toward highways rather than railroads. All consumers, whether owners of automobiles or not, do contribute to the building and maintenance of an infrastructure facilitating the use of automobiles instead of contributing to the public transportation system that they need. After observing these contradictory aspects of the influences of the automobile industry on socio-political life, one should not have to ask what justifies/motivates the intervention of the state to support or salvage the industry. This research was aimed at proving that the social, political, and cultural importance of the automobile industry weighs the states decisions to intervene in the economy, contrary to the general support for free market economy.

The three alternatives
Let us first consider the three alternative economic arrangements in the developed countries.

After the fall of US hegemony, new centers of economic and political power have emerged. China is the principal new center but as of the writing of Gilpin seminal book Europe, and Japan were emerging. Another new center of power emerging in international trade relations is BRIC (Brazil, India, China) but we will separate China from this group for our review below [6]. Each new center of power has defined its own approach to industrial policy, showing viable alternatives to traditional Capitalism and its underlying political philosophy of Neo Liberalist democracy. In chapter seven of his book, Robert Gilpin does a detailed description of the three major models of economic policy: the US, Japan, and Germany, in that order [6]. The reason for the order of his analysis, according to the author, is that the US is one extreme, Japan the other extreme, and Germany a blend of the two. The three models are compared in terms of:

- The primary purpose of economic activity
- The role of the state
- The structure of the corporate sector.

The US Capitalism primary purpose is to benefit the consumers and maximize wealth creation (for corporations). This has resulted in the emergence of large corporations with an oligopolistic style competition. The free-market philosophy was somewhat mitigated at the time of the Great Depression and a limit on free market economy was set with the creation of the Federal Reserve system (The Fed). The mission of the Fed is to apply macroeconomic measures to limit the effects of the economic cycles on employment and inflation. This environment best describes the context of the US automobile manufacturers. We saw the advance of 'the big three' taking place and progressing at an accelerated rate during the Great Depression due to the elimination of minor competitors. The power of trade labor was important but kept in check and then faltered, starting with the Reagan years. Furthermore, through subsidies and other methods of support, it is acknowledged that this sector is important and will be helped (the same applies to a larger extent to

financial institutions).

The Japanese model purpose is the make Japan a superior economic power via a policy of technological advance. The Toyota model is a good example. Through superior R&D, refined manufacturing processes, and exemplary quality controls, Toyota asserted itself as the major winner of international competition in the world automobile industry. The dominance of the keiretsu, and particularly the vertical keiretsu surrounding the Toyota automobile company, has allowed Japan to foster an industrial policy of export oriented industrial development. Labor relations are characterized by a philosophy of inclusion through generous social programs controlled by the corporations.

The hybrid German model (named "Rhenan" capitalism by Albert is like the US as it allows the market to function as freely as possible, but it has some characteristics of the Japanese model in its support of key industry and a liberal labor policy [22]. It resulted in a highly oligopolistic economy where alliances between large banks and large corporations dominate the economy. Labor, however, is included in the corporate governance boards.

If we discount the theory that stages of economic development dictate the best economic policy (in this case the three economies are at the same stage of development), the preference for one system over the other should be based on the benefits brought to all stakeholders like the German system. The German auto manufacturers seem immune to the troubles of the US manufacturers and are very effective in the international competition by focusing on high quality, and technologically advanced products. They also function without the type of governmental intervention observed in Japan or the US.
The decisions regarding the future of this industry must be included in the larger decision regarding the transportation issue. Noam Chomsky suggested that the rescue plan of 2008 failed to include the auto industry rescue in the broader issue of transportation and to review alternatives for a company such as General Motors to redirect its effort toward other modes of transportation [18]. Most importantly Chomsky suggested that such decisions should be subject to public debate instead of being done by technocrats.

Another support for the democratization of economic life comes from Robert Dahl when the author states that opportunity to participate in political life is limited by the inequal distribution of economic resources [21]. By extension, the author states that the most necessary step toward fair distribution of economic resources is the democratization of corporate governance.

**To Quote:**
"Typically, these organizations are immensely important in the everyday lives of most citizens, but they stand out starkly because of their nondemocratic governments" [21].

## Conclusion

This paper was intended to demonstrate that the American automobile industry, as a mature and capital-intensive industry, is not sustainable in its current structure and its failure of globalization strategy has brought it in focus. Other countries such as France, Germany, and Japan seem more capable to sustain the traditional corporate structure in the short term, but it should be noted that the largest automobile company in France has a significant Chinese capital contribution. Several factors have made the American automobile industry an oddity in the context of Liberal Capitalism. Its product has become an essential good that everyone is expected to have, and therefore the consumers have put demands in terms of quality and security that require large capital investments while at the same time capital markets access is not available. The resolution to this contradiction has been increasingly intervention by the state and it cannot expect to become strong enough to become internationally competitive. The fate of the automobile industry can also be looked at as a pattern for any industry when it reaches maturity. The rapidity of technological transfer has accelerated to the point where the most competitive industry becomes mature more quickly. One can question how long the high-tech sector will take to face a similar situation. Finally, China has rapidly become the leader as an additional proof that old cliches that the American industrial model is destined to lead the world in innovation needs to be revised. The recommendation for policy makers is to consider the automobile industry in the context of a national transportation policy. Not only is it the task of politicians to find the best answer to a transportation need that has become part of common goods, it will be also necessary to have local communities have a say on matters having an impact on their community. The enterprise needs to become a locus of cooperative decision by all stakeholders, not just shareholders. May the crisis of the automobile industry be the trigger toward a more participative economy.

The limitations of this study. i.e., using a limited sample and a qualitative approach must be recognized and it would benefit from other studies of successful globalizations by Toyota and Stellantis for example. This would increase the size of the sample and possible falsification. It has, however, satisfied to some degree the possibility of generalization, going from one American manufacturer (Chrysler) to others (Ford and GM) and finding commonality in their globalization failure.

## Author

Marcel Collin obtained an MBA from the Kellogg School at Northwestern before having a 40+years of business experience, half of which in the automobile industry. He is currently a doctoral candidate at the University of South Florida.

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