

# Multinational Corporations and Trading Blocks

Module 9

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*Teaching Notes in Notes Page View*



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## Multinational Corporations - Characteristics

- Compete aggressively
- Not tied to specific locations
- Work in a multi-cultural environment
- Borderless due to technological innovations

Global companies are not tied to specific locations. Operations and allies are spread world-wide.

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## Driven by Worldwide Competition

- Inexpensive labor
- Educated labor
- Raw materials
- Partnerships – supply chains
- Distribution channels
- Access to new markets

J. Fox, "Where your job is going," *Fortune*, November 24, 2003.

Global companies seek competitive advantages, e.g., low cost producer, inexpensive and educated labor, access to market.

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## Multi-Cultural Environment

- Working across border
- “Behavioral software”
  - Culture
- Seeking partnerships - alliances

Bernard Wysocki, Jr., “Global Reach: Cross-Border Alliances Become Favorite Way to Crack New Markets.” *Wall Street Journal*, March 26, 1990.  
Gerte Hofstede, *Culture’s Consequences: International Differences in Work-related Values* (Beverly Hills, CA: Sage Publications, 1980).

Behavioral software refers to the culture of a society which is comprised of shared values, understandings, assumptions, and goals that are learned from earlier generations. This shared outlook results in common attitudes, behaviors, and expectations that guide normative behavior. You are born into, not given, a culture Hofstede, 1980).

# Trading Blocks

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## Regional Trading Blocks

- European Union
- ASEAN
- North America

“The dominance of the United States is already over. What is emerging is a world economy of blocs represented by North America Free Trade Agreement (NAFTA), the EU, and the Association of Southeast Asian Nations (ASEAN). There’s no one center in this world economy” (Peter Drucker, Fortune, January 12, 2004).

Much of today’s world trade takes place in three regional free-trade blocks: Western Europe, Asia, and North America.

This Triad market is grouped around three dominant currencies:

Western Europe – Euro

Asia – yen

North America – dollar

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## European Union - Western Europe

- **European Union Member States**
- These are the main governmental sites for each country, which usually include the sites for the Head of State, the Government, the Ministry of Foreign Affairs, and sometimes a portal site for the national civil service.

The section "Other useful links" gives users access to the sites for institutions such as the national parliament, the national statistics office, the central bank and the national cultural organization.

- Austria
- Belgium
- Cyprus
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary

[http://europa.eu/abc/governments/index\\_en.htm](http://europa.eu/abc/governments/index_en.htm)

**Beginnings: war and peace** For centuries, Europe was the scene of frequent and bloody wars. In the period 1870 to 1945, France and Germany fought each other three times, with terrible loss of life. A number of European leaders became convinced that the only way to secure a lasting peace between their countries was to unite them economically and politically.

So, in 1950, in a speech inspired by Jean Monnet, the French Foreign Minister Robert Schuman proposed integrating the coal and steel industries of Western Europe. As a result, in 1951, the European Coal and Steel Community (ECSC) was set up, with six members: Belgium, West Germany, Luxembourg, France, Italy and the Netherlands. The power to take decisions about the coal and steel industry in these countries was placed in the hands of an independent, supranational body called the "High Authority". Jean Monnet was its first President.

**From three communities to the European Union**

The ECSC was such a success that, within a few years, these same six countries decided to go further and integrate other sectors of their economies. In 1957 they signed the Treaties of Rome, creating the European Atomic Energy Community (EURATOM) and the European Economic Community (EEC). The member states set about removing trade barriers between them and forming a "common market".

In 1967 the institutions of the three European communities were merged. From this point on, there was a single Commission and a single Council of Ministers as well as the European Parliament.

Originally, the members of the European Parliament were chosen by the national parliaments but in 1979 the first direct elections were held, allowing the citizens of the member states to vote for the candidate of their choice. Since then, direct elections have been held every five years.

The Treaty of Maastricht (1992) introduced new forms of co-operation between the member state governments - for example on defence, and in the area of "justice and home affairs". By adding this inter-governmental co-operation to the existing "Community" system, the Maastricht Treaty created the European Union (EU).

**Integration means common policies**

Economic and political integration between the member states of the European Union means that these countries have to take joint decisions on many matters. So they have developed common policies in a very wide range of fields - from agriculture to culture, from consumer affairs to competition, from the environment and energy to transport and trade.

In the early days the focus was on a common commercial policy for coal and steel and a common agricultural policy. Other policies were added as time went by, and as the need arose. Some key policy aims have changed in the light of changing circumstances. For example, the aim of the agricultural policy is no longer to produce as much food as cheaply as possible but to support farming methods that produce healthy, high-quality food and protect the environment. The need for environmental protection is now taken into account across the whole range of EU policies.

The European Union's relations with the rest of the world have also become important. The EU negotiates major trade and aid agreements with other countries and is developing a Common Foreign and Security Policy.

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## EU Member States -continued-

- Ireland
- Italy
- Latvia
- Lithuania
- Luxembourg
- Malta
- Poland
- Slovakia
- Spain
- Sweden
- The Netherlands
- United Kingdom

[http://europa.eu/abc/governments/index\\_en.htm](http://europa.eu/abc/governments/index_en.htm)

### The Single Market: banning the barriers

It took some time for the Member States to remove all the barriers to trade between them and to turn their "common market" into a genuine single market in which goods, services, people and capital could move around freely. The Single Market was formally completed at the end of 1992, though there is still work to be done in some areas - for example, to create a genuinely single market in financial services.

During the 1990s it became increasingly easy for people to move around in Europe, as passport and customs checks were abolished at most of the EU's internal borders. One consequence is greater mobility for EU citizens. Since 1987, for example, more than a million young Europeans have taken study courses abroad, with support from the EU.

### The Single Currency: the euro in your pocket

In 1992 the EU decided to go for economic and monetary union (EMU), involving the introduction of a single European currency managed by a European Central Bank. The single currency - the euro - became a reality on 1 January 2002, when euro notes and coins replaced national currencies in twelve of the 15 countries of the European Union (Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland).

### The growing family

The EU has grown in size with successive waves of accessions. Denmark, Ireland and the United Kingdom joined in 1973 followed by Greece in 1981, Spain and Portugal in 1986 and Austria, Finland and Sweden in 1995. The European Union welcomed ten new countries in 2004: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. Bulgaria and Romania expect to follow in 2007; Croatia and Turkey are beginning membership negotiations in 2005. To ensure that the enlarged EU can continue functioning efficiently, it needs a more streamlined system for taking decisions. That is why the Treaty of Nice lays down new rules governing the size of the EU institutions and the way they work. It came into force on 1 February 2003. It will be replaced, in 2006, by the new EU Constitution - if all EU countries approve this.

[http://en.wikipedia.org/wiki/European\\_Union](http://en.wikipedia.org/wiki/European_Union)

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# ASEAN

- Japan
- Four Tigers
  - Singapore
  - Hong Kong
  - Taiwan
  - South Korea

**Japan and the Four Tigers, each with abundant resources and labor, provided much of the capital and expertise for Asia. Now the focus is on China.**

### **Characteristics of the Tiger economies**

The East Asian Tigers pursued an [export](#)-driven model of economic development; these countries and territories focused on developing goods for export to highly-industrialized nations. Domestic consumption was discouraged through government policies such as high tariffs. The East Asian Tigers singled out education as a means of improving [productivity](#); these nations focused on improving the education system at all levels; heavy emphasis was placed on ensuring that all children attended elementary [education](#) and compulsory high school education. Money was also spent on improving the college and [university](#) system.

Since the East Asian Tigers were relatively poor during the 1960s, these nations had an abundance of cheap labor. Coupled with educational reform, they were able to leverage this combination into a cheap, yet productive workforce. The East Asian Tigers committed to [egalitarianism](#) in the form of [land reform](#), to promote property rights and to ensure that agricultural workers would not become disgruntled. Also, policies of agricultural subsidies and tariffs on agricultural products were implemented as well.

The common characteristics of the East Asian Tigers are:

Focused on exports to richer industrialized nations

Trade surplus with aforementioned countries

Sustained rate of double-digit growth for decades

Non-democratic and relatively authoritarian political systems during the early years

Undervalued currencies

High level of U.S. treasury bond holdings

High savings rate

### Criticism of the export-driven trade model

The East Asian Tigers were strongly affected by the 1997 [Asian financial crisis](#), which impacted each Tiger to varying degrees. While Taiwan was not as strongly affected, South Korea was badly battered by the crisis. Because of the focus on export-driven growth, many of the Tigers became caught up in a game of currency devaluation. The current criticism of the East Asian Tigers is that these economies focus exclusively on export-demand, at the cost of import-demand. Thus, these economies are heavily reliant on the economic health of their targeted export nations. In addition, these nations have met difficulties after they lost their initial competitive edge, cheap productive labour. [India](#) and the [People's Republic of China](#) have now emerged as fast-growing economies based on cheap labour, largely replacing the Tigers.

[\[edit\]](#)

### Asian Financial Crisis

In the aftermath of the 1997 Asian Financial/Economic Crisis, many so called 'Asian Tigers' countries suffered deep depreciation of their currencies, stock market prices declined and social and political unrest. This was due to the withdrawal of foreign and domestic capital out of the East Asian countries such as [Thailand](#), [Malaysia](#), [Republic of China \(Taiwan\)](#), [Hong Kong \(People's Republic of China\)](#), [Singapore](#), [South Korea](#), and the [Philippines](#). Prior to the financial crisis, all the Asian economies were enjoying very high economic growth, high interest rates to attract [foreign investments](#).

Some economies were becoming overheated, stock prices were overvalued, property prices were sky-high and investors were jittery and nervous. Because of the structural weaknesses in the regulatory framework, once **capital flight** began, the stock market nosedived and the major Asian currencies depreciated significantly. This caused social unrest, political instability, regime change and financial bailing out by the [International Monetary Fund](#). This also gave impetus to some Asian governments to impose capital controls to restrict currency outflows and maintain monetary and financial stability. [Malaysia](#) maintained a [currency peg](#) to the US Dollar. The [Republic of China](#) (Taiwan) created legislation requiring all outgoing capital transfers to be declared. However, there were no direct restrictions.

Since the crisis most of the Tiger economies have become financially stable with resilient institutions and companies and regulatory frameworks in place to prevent another crisis. This has also shown many Asian governments that the easy and predictable prosperity of export-led growth and cheap labour costs won't last forever. To better compete with the emerging manufacturing giants like the [People's Republic of China](#) and [India](#), they will have to create new industries, move up the value-add chain and create stronger service sectors in their economies.

[http://en.wikipedia.org/wiki/East\\_Asian\\_Tigers](http://en.wikipedia.org/wiki/East_Asian_Tigers)

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## ASEAN -continued-

- China
- South Asia
  - Bangladesh
  - Bhutan
  - India
  - The Maldives
  - Nepal
  - Pakistan
  - Sri Lanka

China is an export powerhouse, built on strength of low costs and constant flow of capital. China has the fastest growing GCP (9.01% in 2003). China is stuck between a command economy and market economy; capital allocations are state controlled.

September, 2001 China became a member of the World Trade Organization (WTO).

Lower tariffs make foreign products more affordable for the Chinese, opening up huge, untapped markets. An increasing number of non-Chinese firms are setting up manufacturing and service facilities in China.

[Nanjing Road, Shanghai](#) (南京路), one of the world's busiest shopping streets.

Comparison between the [People's Republic of China \(PRC\)](#) and the Tigers can be divided between the [Maoist](#) era and the [era of reform](#) starting with [Deng Xiaoping](#). The main question that has been raised with respect to the Maoist era is to what extent the economic performance of the Tigers was reproducible in the People's Republic of China in the 1960s. The main question that has been raised with respect to the post-Maoist era is to what extent the development of the PRC is sustainable.

An important question is the relevance of the experience of the Tigers to current economic growth in the People's Republic of China. In the 1980s it was common to argue that the export-centered growth of the Tigers was of limited relevance to the People's Republic of China because the Tigers were small and any effort to mimic them would result in more exports than the developed world could handle. This objection was later less often raised since the pattern of economic growth has been for exports to trigger economic growth in the coastal regions, and for these coastal regions to serve as markets and triggers for growth in the interior.

Since the late 1990s, some of the heat has dissipated from this debate, in part because its become of more historical than current interest: as a result of the Deng Xiaoping reforms, the PRC has one of the world's highest rates of per capita [GDP](#) growth. Furthermore, the [Communist Party of China](#) and [Kuomintang](#) today both view the creation of a new [Republic of Taiwan](#) as a common adversary and are much less likely to assert superiority over the other. Ironically, and to the chagrin of many western observers, it is now common for the Communist Party of China to use the experience of the Asian Tigers as justification for its authoritarian rule. The argument by the Party is that at the current stage of economic development the PRC needs a non-democratic system similar to those that the Tigers had in the early years of growth.

## South Asia

In 2004 an agreement was signed to form the South Asia Association of Regional Cooperation (SAARC), a free trade pact among Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka, effective January 1, 2006.

The agreement will lower tariffs to 25 percent within three to five years and eliminate them totally within seven years.

Member nations represent 1.5 billion people, but with an estimated one-third living in poverty.


Trade is estimated at \$14 billion, once the agreement takes place, with most of the trade being between India and Pakistan.

## India

[India](#) has not had a land reform as consistent and thorough as [Korea's](#) or [Taiwan's](#). The liberalisation of the post-colonial [Indian economy](#) occurred in [1991](#) under the finance minister, [Manmohan Singh](#), the current [prime minister of India](#). With the collapse of the [Soviet Union](#), [India's](#) [socialist](#)-inspired economic policies which had stagnated growth in the [1970s](#), after initial periods of success in recovering the country from [British occupation](#), were put under pressure as [India's](#) main supporter disappeared, and a balance of payment crisis, as well as rapid decline in [foreign exchange](#) reserves threatened financial meltdown.

Unlike many other fast-growing Asian economies, India's growth is largely driven by domestic [consumption](#), like many advanced economies of the West. India's vast educated workforce is responsible for its ongoing [information technology](#) (IT) and [services](#) boom. This has helped other industries such as [retail](#), [finance](#), [construction](#) and [hospitality](#) to benefit from the buoyant domestic demand. India's competitive IT industry has also created a new-found confidence in Indian industry in general, protected from international competition till 1991. The current focus is on developing world-class infrastructure and industrialization to encourage large [manufacturing](#) clusters. This is crucial in to divert a significant part of the 60% of India's workforce, currently dependent on [agriculture](#), to [industry](#).

Although it has its share of difficult problems, India is on its way to overtake [Japan](#) by the end of 2006 to become the third largest economy in the world. The inherent strength of a democratic political system coupled with a free market economy will increasingly work to India's advantage as it grows further.



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## North America

- United States
- Canada
- Mexico

North American Free Trade Agreement (NAFTA). The goal of NAFTA was to create one America – to bring faster growth, more jobs, better working conditions, and a cleaner environment for all as a results of increased exports and trade.

One America represents 421 million consumers.

# Other Regions of the World

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## Other Regions of the World

- Central America (CAFTA)
  - El Salvador
  - Guatemala
  - Honduras
  - Nicaragua
  - Costa Rica
- Russian Federation
- Less Developed Countries

In December 2004 US completed trade negotiations to create a new regional trade area, CAFTA – Central America Free Trade Agreement.

### Russian Federation

Political, economic, and social changes around the world present new challenges for global managers. Movement away from communism, along with the trend toward privatization, is likely to have an enormous influence on the world economy. Economic freedom is correlated with the level of relative wealth in a nation.

Russia is faring well as it continues to transition to a capitalist economy. In 2003, the Russian economic ministry reported that the economy had grown by 6.8 percent.

A more stable rouble, the Russian currency, has encouraged foreign firms to take advantage of opportunities, e.g., vast natural resources, well-educated and under employed population of 140 million.

Less developed countries continue to struggle with low gross national product. Many countries in Central and South America and the Middle East, India, and Africa hope to attract foreign investment to stimulate their local economies. Firms, however, must be willing to take economic risks due to political unrest.

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