TRADE MODELS AND THE MULTINATIONAL CORPORATION: A COMPARISON OF ASIAN AND LATIN AMERICAN EXPERIENCE

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Abstract

This paper examines the economic models of ISI (import substitution industrialization) versus EXPRO (export promotion model) in light of the post-WWII experience of two substantial areas of the developing world: Latin America and Asia.

Introduction

The Multinational Corporation (MNC) has increasingly come under the control of more and more individual countries. Where, in the past, the MNC was under the control of the home nation alone, the developments following World War II have brought each of the MNC's subsidiaries under increasingly stricter control by the host nations. In more recent time even the parent corporation has found itself under heavy pressure from host nations to modify its global plans.

After World War II, it became increasingly obvious to Latin American nations that the region's reliance on primary-product exports had produced a degree of susceptibility to fluctuations in demand that would not lead to the levels of internal development sought by local governments. This recognition led to the general acceptance of a model for development that was based strongly on the avoidance of dependence on the industrialized nations. Latin nations felt that their entire economic and political well-being depended on the whim of the industrialized nations who made the international decisions. The issue of "persistently deteriorating terms of trade" for the region's major export goods was espoused by Raul Prebisch and was soon taken up by most of the developing world.

These concerns led to the establishment of an import substitution industrialization (ISI) policy that was readily accepted by most of the economists and political leaders of the region as the only viable road to economic autonomy.

From this point on, the leading criterion for acceptance or rejection of an investment by an MNC was the ability of this investment to produce goods internally that were previously imported. This model led to inefficiencies that became institutionalized within the host nations with resultant high prices that detracted from economic growth potential. The only goal served was that of independence but that soon deteriorated into isolation.

The Asian nations also embarked on a model of development that included strong priorities for avoidance of dependence. These nations, however, soon recognized that independence leading to isolation was not in their best interests and therefore, embarked on an alternate development plan that required interdependence. This model emphasized the need for export promotion rather than import substitution.

The export promotion model (EXPRO) required foreign investment also. However, the primary criterion for selection of foreign investment became its ability to export its output.

Export products require that the investing firm must be able to produce goods that are immediately acceptable to world markets from a product quality aspect and a world price competitive aspect.

Whether or not the products of a subsidiary of an MNC are suitable for the host nation's markets are of small consequence in this EXPRO model. The overwhelming characteristic is that they be suitable to world markets and can therefore obtain the foreign exchange necessary for the host nation to import whatever goods it needs or desires at world prices.

Methodology

Presentation and examination of the data demonstrating the utilization of these models with regard to: economic growth, selection of foreign investment, internal development will demonstrate the need for the modern MNC to pay close attention to the economic models of potential host nations that involve trade models inimical to the long-run goals of the MNC.

Analysis

The study will show that the recent trend of MNCs becoming "good neighbors" to their host countries is fading as a new version of the MNC is emerging: the World Trade Company (WTC). This WTC has as its principal goal: the worldwide maximization of efficiency of production and distribution of goods and services through the efficient worldwide allocation of scarce resources.