MULTINATIONAL CORPORATION STRATEGIES FOR THE CHANGING PATTERNS OF INTERNATIONAL TRADE

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This paper tries to give a comprehensive summary of the multinational corporation strategies in the light of the fast-changing world and the changing patterns of international trade. We make a general picture of contemporary world economy and international trade with strong focus on the most important patterns of the current globalisation tendencies. The room for manoeuvre for corporate adaptation is unearthed. The study points to the most important factors of competitiveness and calls the attention to relevant directions to take by the corporations given the rapidly changing feature of the contemporary world economy and international trade.

Keywords: international trade, global shocks, challenges, MNCs, adaptation.

Today companies are working in a fast-changing world. The evolving business landscape is constantly bringing new challenges and opportunities for corporate players. The Brexit, the election of Donald J. Trump, are unlikely to be the last of the global shocks. Volatility will continue all over the globe and companies need to be equipped to deal with it. The firms have to accept that many old assumptions are no longer valid and they need new approaches to business, and new sets of resources and capabilities. Today companies are stepping out of their comfort zone much more often than in the past, and need to develop resilience. The economic crisis is, at present, one of the most important external factors that influence the operation of companies. It may seem that crises generate nothing but problems for business, however, some companies seem to be capable of utilising the crisis situation to their benefit. Through their flexibility, extensive market research, innovativeness and constant change such companies are equipped to operate and even flourish in current context. In order to better understand the current context, first we summarize the most important features of the current world economy and international trade.
Changing World Economy and International Trade

In 2008–2009, the world economy suffered the deepest global financial crisis since World War II. Countries around the globe witnessed major declines in output, employment and trade. GDP in industrial countries fell by 4.5 per cent in 2008, and average real GDP growth in emerging economies dropped from 8.8 per cent in 2007 to 0.4 at the beginning of 2009. The unemployment rate rose to 9 per cent across OECD economies, and reached double digits in a mix of industrial and developing nations. World trade plummeted by more than 40 per cent in the second half of 2008, collapsing at a rate that outpaced the fall of aggregate output. After 2008 there are a number of post-crisis trade-restrictive measures and multi-layers of trade rules [20].

According to the latest figures, the volume of world trade grew slowly in 2015 with the growth of 2.7 per cent which is in line with world GDP growth of 2.4 per cent. When we take into consideration the current dollar value of world merchandise exports, we have to point to a decline of 14 per cent in 2015 to USD 16.0 trillion. Export prices fell by 15 per cent. There was a similar decrease in case of the dollar value of world commercial services exports which also fell by 6 per cent in 2015 to USD 4,754 billion. The decline was less severe than in merchandise trade. In the first half of 2015, the significant slowdown in trade volumes affected every region to varying degrees but this was significantly reversed by the end of the year. Behind the weakness of trade there are a number of factors: economic slowdown in China, recession in Brazil, falling oil and other commodity prices and volatile exchange rates.

In Asia the demand for imports slowed as well as in resource-based economies in 2015 but it strengthened in the United States and the European Union. In the first quarter of 2016, merchandise values are stabilizing owing to the easing dollar and modest recovery in oil prices. However the outlook for the year remained subdued. The outlook for the world economy and world trade was quite bleak for 2016. Quarter-on-quarter GDP growth was modest in the USA and the euro area in the final quarter of 2015. Output slowed in China and contracted in Japan. The Chinese economy slowed even further but some indicators suggest that growth would remain stable at a lower but more sustainable rate. In the USA growth eased in 2016 and accelerated in the euro area. Japan’s GDP is changing between positive and negative. There was weak and uneven growth in both real GDP and merchandise trade volume in 2016.

The share of manufactured goods in total merchandise exports was just over 70 per cent in 2015, up from 67 per cent in 2014. The share of agricultural products also increased slightly to around 10 per cent in 2015. This was mostly due to the sharp decline in the value of fuels and
mining products whose share dropped to 18 per cent in 2015, from 20 per cent in 2014 [20].

In 2015, the world transport sector fell by 10 per cent as container shipping rates fell sharply due to lower demand especially in developing economies. Global travel receipts also decreased largely as a result of strong exchange rate fluctuations rather than declining demand for international tourism. The aggregate category «other commercial services», which account for more than half of services exported worldwide, contracted by 5 per cent. Construction was the hardest hit services sector (~15 per cent), reflecting a fall in exports in both developed and developing economies [20]. As we could see international trade has undergone significant changes and in order to better understand these new tendencies we unearth the influencing factors.

**The New Tendencies of Globalisation?**

Apart from the main macroeconomic indicators and trade numbers, we have to point to some ground-breaking tendencies shaping the contemporary world economy.

First of all, the WTO Doha Round was a failure and currently Donald J. Trump disavowes free trade agreements (NAFTA, TPP). In addition, in the ligth of Brexit, there will be reduced economic integration between the UK and the EU and the regional opposition almost undermined CETA (The Comprehensive Economic and Trade Agreement).

Secondly, it is well-known that globalisation is not a product of our times as the current wave is the second in the past 200 years. The first wave began in the 19th century as the UK embraced Ricardian logic of comparative advantage, free trade and open markets. This first wave collapsed after the Great Depression when countries closed their economies [8].

The current phase began after World War II. The causes of the current globalisation are multi-fold: improved communication and transport, free trade agreements, global banking, the growth of MNCs [5]. The consequences are the following: changed food supply division of labour, less job security, damage to the environment, cultural impact, increase in anti-globalisation protests.

When we would like to classify the drivers of contemporary globalisation we have to point to forces at work: innovation and politics. In case of innovation we have to focus on faster and cheaper communication (Internet) and transportation (larger ships). As far as politics is concerned, the key issue is whether the technology potential will be captured [5]. So far politics has enabled two waves. In the 1840s the turning point was a political decision. The repeal of the Corn Laws, which protected British agriculture from imports.
After World War II, the USA took the lead in opening markets and creating an infrastructure for the international economy (GATT and WTO). Politics has ended the first wave as after 1929, government closed down their economies with protectionist measures such as the US Smoot-Hawley Tariff Act of 1930 [8].

According to liberalism, globalisation survives until political actors in favour of globalisation regain more power than those against it. The tendency lasts until these actors believe that they are winner of globalisation (true or not – all the same). Anti-EU voters in Britain (Brexit), Trump presidency – the political debate has shifted against economic openness. In the eyes of many, there is a remedy: redistribution to turn the losers into winners which is a kind of embedded liberalism (retraining, social security systems).

According to realism, the waves of globalisation always mirror the rise and decline of powerful states. In the 19th century Britain was the most powerful nation, after World War II the USA took the lead. After the turn of the new millennium, the USA is still very powerful but it is clearly in decline relative to other nations like China [8]. Under realism there are three scenarios:

1. A new global hegemon emerges and takes over the maintenance of the system. In this way globalisation survives.
2. A new global hegemon takes over but reshapes the system according to its preferences, the rules of the game may change considerably. The new hegemon may leave less space for other states to benefit from trade and investment (like in the case of the Soviet Union and its satellites).
3. No new global hegemon rather regional hegemons emerge (USA in the West and China in the East) leading to regionalisation. In the extreme, little exchange may occur between the regions like in the Cold War era.

It is a fundamental question to understand what is going to happen. As we take into consideration a number of factors, the last scenario is the most probable. China simply will not be strong enough to displace the USA completely, the USA will not be strong enough to prevent China from taking control of its sphere of influence. The Trumpian retreat would accelerate this process and globalisation as we have known it is likely to be in trouble [8].

In general, the globalisation’s impact has changed. Recently, globalisation has proved to be disruptive in G7 countries as the share of labour of GDP fell and the reward to knowledge has risen. The consequences were frustration and economic disenfranchisement. In parallel, globalisation has proved to be cohesive in emerging markets. The middle class has flourished, trade agreements have got deeper and there was the so called hyper-globalisation.
We have to rethink our approach towards national competitiveness as well. After the turn of the new millenium goods are no longer assembled entirely within the boundaries of one factory in one country. Instead, many goods are assembled in global value chains in which products are designed in the weightless economies but made from parts built in several countries and assembled in another country [5].

We have to point to the fact, that the contours of industrial competitiveness are now increasingly defined by the outlines of international production networks rather than the boundaries of nations. When a developing nation joins an international supply chain, it can free-ride on other nations’ industrial bases. In order to be part of the global value chain, emerging countries need to accept foreign investment. In this new era, tariffs make no sense; taxing an imported component only raises the cost (and reduces the competitiveness) when it is re-exported. Old theories of the best way to develop an economy look out-of-date. It is very likely for example, that multinational corporations can retain their assembly lines in emerging countries but the hand movements of workers working on them would be transmitted via the Internet to the developed country. As a consequence, production would be done in the developed country. This would be a kind of transportation of labour.

One more eye-catching idea is the appearance of the 3D printers. Components, semi-prepared goods would be designed and outlined in emerging countries and completely automated printers would produce those parts. In addition, there will be an all-pervasive robotization. There will be no need for low-value added jobs in the future as robots will replace low-skilled workers. Bearing this tendency in mind, there will be no need for assembly line workers in emerging markets [5]. Based on these significant changes, now we turn to assessing the required skills in a broader framework influenced by mega trends.

**Embracing Change: Trends and Skills Required**

Analyzing the changes taking place in the global environment PricewaterhouseCoopers distinguished out five mega trends [15]:

- **Growing Urban Population.** The United Nations predict that in 2050 the urban population will increase up to 72%. As a result there will be an increasing demand for the resources to build the infrastructure, provide education, ensure security and create jobs.

- **Global Warming.** Climate change combined with population growth will cause resource scarcity.

- **Demographic Changes.** In well developed countries the aging societies will be observed while in other countries the population will grow.

- **Emerging Markets Gain Power.** BRIC countries gain more influence as a result of population growth, exports and innovation.
Advances in Technology. Technological development, in particular nanotechnology and mobile technology, will lead to creation of new industries. The barriers to virtual business organizations will be decreased and thus competition and new sources of competitiveness will increase. The development of information and communication technologies will eliminate the negative impact of distributed location of business [7. – P. 308]

There are other important trends that are increasingly affecting how decision makers see their organizations and their futures: automation, the commoditization of knowledge and the fact that we live in so-called ‘VUCA’ world – one that becomes increasingly volatile, uncertain, complex and ambiguous. Today the top-managers of companies worldwide are preoccupied with economic volatility and risk. Organizations are seeing not only economic uncertainty, but more competition and disruption, with new market entrants and radically different business models. The pace of change in the global market only continues to accelerate. We also observe the increase of novelty of the changes, when prior experience becomes less useful. Senior leaders are looking for more and better information to help plan a strategy in a world where they are forced to take more calculated risks and encourage innovation in their own organization to drive growth.

Automation is a trend that continues to increase pace. Self-servicing terminals and voice-response systems are replacing the need for routine administrative and simple transaction-base customer service roles. A related trend has been the commoditization of knowledge. The price that people are willing to pay for information continues to fall. For example, the online availability of information about stock and shares has increased to the point that many individuals can manage their investments for themselves.

Together, these forces continue to shift the skills and competences required of both leaders and employees. Companies worldwide will need to evolve in at least the following ways:

- **Relational approach.** As automation replaces further repetitive and routine tasks, employees must be able to add value in other ways. If, for example, an organization wishes to distinguish itself through its superior customer service, it must ensure that its employees can demonstrate the best human skills in order to develop sustainable relationships with customers. The important skill to be underlined here is ‘perspective talking’, which is an ability to understand the goals of other people [3. – P. 65]. From business point of view, such conversations will help to identify what another party wants in terms of quantifiable outcomes, such as the price they are willing to pay, and unquantifiable outcomes.

- **Management of change and dynamic strategy.** The pace of change in a VUCA world means that organizations also need to restructure and change more quickly. Nowadays, the strategy should be dynamic, and the key challenge for leaders in managing change is motivating employees to
make sure the strategy is executed [16]. Today when hiring and promoting employees forward-looking organizations have begun to more welcome open-minded, mobile and adaptable individuals, than those who are just good at following the existing schedules and processes. In conditions of generalized uncertainty, the capacity for quick real-time and adequate responses to changing situations and forecasts for the future is the source of competitive advantage [6].

- **Long-term view and reputation.** Many organizations now recognize that operating in a VUCA world means that it is becoming increasingly important to set short-term objectives that lead to true long-term value creation. For example, not paying foreign suppliers on time can improve liquidity but will destroy trust and supplier relationships in the long-term. Therefore, all short-term plans and actions should be aligned with long-term objectives.

**Competitiveness in the changing environment**

Today in order to sustain long-term competitive advantage in the global marketplace companies have to analyze diverse factors of competitiveness (Table). When a company is able to pursue the variety of factors of competitiveness, provide interaction between its elements, it can build synergy potential, as a result achieving the ability to survive, outperform the competitors and prosper over time.

<table>
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<th>Factors of company’s competitiveness</th>
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<tr>
<td>1. Quality of products and services</td>
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<td>2. Unique configuration of resources (particularly intangible)</td>
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<td>3. Information, knowledge and talents</td>
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<td>4. Dynamic strategy</td>
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<td>5. Core competences and dynamic capabilities</td>
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<td>6. Costs efficiency</td>
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<td>7. Level of profitability higher than of competitors</td>
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<td>8. Image and reputation</td>
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<td>9. Innovativeness (frequency and scale of innovative initiatives)</td>
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<td>10. Advanced leadership, management tools and systems</td>
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<td>11. Time needed to execute an order and launch new products (time-based competition)</td>
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<td>12. Usage of ICT</td>
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<td>13. Situational approach, flexibility &amp; agility (organization on the move)</td>
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<td>14. Relationship approach and strategies</td>
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<td>15. Ability to provide offerings based on customers’ individual expectations (customer-tailored products)</td>
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Nowadays in the rapidly increasing role of knowledge economy, only an intelligent, flexible and innovative organization has a chance to compete on the market [4]. Knowledge is one of the most important factors in building a competitive advantage because it can reveal the direction of future trends and opportunities for value creation. Therefore, in order to be competitive, a company should be a learning organization, gaining access to advanced knowledge and diverse information, derived from both internal and external sources. With this respect there is a growing demand for talented employees with creative mindset and quest for latest knowledge and continuous development.

Information is regarded as important, strategic resource, determining organization’s success [10]. The development of the Internet, social media, distributed databases, applications, and a variety of mobile devices has caused a huge increase in data: 90% of all the information ever produced has been created in the past two years [2. – P. 66]. Today the ability to use large data is becoming one of the key components that supports organization’s development, helping to monitor various socio-economic phenomena and take effective business decisions.

The adjustment to the changing market and customers’ needs require constant observation of what is going on in order to become operative at the right time. In a dynamic market it is difficult to introduce a long-term strategy, the company must adapt to change and do it quickly. Therefore now more than ever flexibility and agility, accelerated by technological advancement and innovations, can make a big difference in the global marketplace.

Since 1980s, in competitive struggle, attention has been drawn to the company’s available resources, as well as skills and capabilities. Nowadays, considering the role of resources for competitive edge, the great importance of intangible resources should be noted, especially of those that are unique for the company, hard to recreate or imitate. Intangibles such as data, branding and talent have now become central to value creation [1]. The increasing rate and speed of change, ever intense competition and unpredictability of operational conditions are among reasons why companies face a necessity to complement internal resources, capabilities and competences, which results in the increasing interdependence and need for collaboration. In this circumstances relationships become embedded in the company’s strategic activities.

The relationship strategy is seen as an ongoing and dynamic process of choices about acquiring, building, maintaining or breaking off relationships that are realized in conditions of uncertainty in order to create value, build and maintain the competitive potential [14]. However, it should be stressed that the relational strategies area is a broader category than the network strategies because the relation in itself is a set of feelings, attitudes
and behaviors towards each of two (or more) players in the market and interactions between them. Thus, the relational approach to strategy involves choices about different types of relationships in order to get a «relationship premium», evidenced by «an additional profit generated jointly by the parties in the relationship, which could not be achieved by any of the parties alone» [19. – P. 64].

The relationship strategy is applicable to strategic choices inside the enterprise, and to various external relationships: with partners, industry regulators, government, competitors etc. When formulating and executing corporate and business strategy the companies have to rest on the «portfolio of relationships» which becomes more and more vital for success.

The relationship approach to competitive advantage complements the resource theory with an importance of external relations in creating value and building a competitive edge [14. – P. 16]. In this context, relational strategies for the company’s growth are an expression of an adaptation to a selective environment while shaping the environment and conditions of survival [18].

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