

Edited by
Michael Landeck

International Trade

Regional and Global Issues

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To my loving mother, Tanya, my sister, Polly, and
daughter, Edie, and in living memory of my father,
Heinz Günther Landeck

In memory of George N. Yannopoulos

Dr George N. Yannopoulos died on 11 September, 1992. He was a Professor and the Chairman of the Graduate School of European and International Studies at the University of Reading in England.

Dr Yannopoulos is best known as a pioneer scholar of the economics of the enlargement of the European Community. His works include *The EEC and the Mediterranean Countries*, *The EEC and Eastern Europe*, *Greece and the EEC: Integration and Convergence*, *Shipping Policies for an Open World Economy*, and *Europe and America 1992: US-EEC Economic Relations and the Single European Market*.

Dr Yannopoulos supervised twelve successful MPhil and PhD theses and more than 80 MA dissertations and was frequently called upon by other universities as external examiner. He served on the editorial boards of the *Journal of Common Market Studies* and *Estudos de Economia*. Between 1989 and 1991 he advised the Greek government on the privatization of the state-owned enterprises of the Industrial Reconstruction Organization. During this period Dr Yannopoulos commuted each week between Reading and Athens.

Dr George N. Yannopoulos will be sadly missed by his many colleagues and friends. On a professional level, his scholarly reputation will be difficult to replace.

Preface

In the last three decades we have been witnessing a dazzling development in the magnitude of international trade among the nations of the world. The International Monetary Fund reports that the value of total world exports in 1962 was merely \$129.7 billion. In 1972, this number increased to \$390.1 and in 1982 total world exports reached \$1.73 trillion. In 1991, a new record figure was set at \$3.44 trillion. These figures are also indicators of a steadily growing global economic activity and obviously indicate a steadily increasing interdependency of national economic systems.

Among the most significant occurrences in international trade during this period was the emergence of economic trading powers such as Japan, the European countries, and the emerging Asian 'Tigers'. Indeed, the less developed countries are also beginning to emerge with increased trade activities coming from Asia, the Middle East, Africa, as well as South America.

The US economy has also followed the general trend presented above and increased its export activities from \$20.973 billion in 1962 to \$49.199 billion in 1972, up to \$216.442 billion in 1982, and finally to \$422.158 billion in 1991. Nevertheless, in the last two decades the merchandise trade balance in the US shows a deficit which is gradually decreasing from -\$132.130 billion in 1985 to -\$109.399 billion in 1989, to -\$101.718 billion in 1990 and -\$66.205 billion in 1991. The US trade balance deficit is one of the most significant economic topics on the current agenda of politicians, economists, business professionals, and the American public in general. It is therefore understandable that a large number of the papers presented at the International Trade and Finance Association (IT&FA) conference related in one way or another, directly and indirectly, to the trade deficit and related international-US trade topics by discussing either specific geographically or global managerial international trade issues.

The formation of trade blocs in Europe, North and Central America, and Asia, and the discussions that are already taking place regarding the formation of other trade blocs, are increasingly capturing the attention of practitioners and academicians who deal with the issues of international trade. As a result, this book is a reflection of that focus and includes a significant number of publications which concentrate on European issues, mainly because of the developments and integration following Europe 1992. Due to the large number of papers dealing with the various aspects of the possible creation of the North American Free Trade Agreement (NAFTA), it

was necessary to have a separate publication on that matter alone which was edited by Dr Khosrow Fatemi.

The Asian issues at the conference revolved mainly around trade with Japan, which is of a serious concern to European researchers and of even greater concern to US researchers in view of the ongoing enormous trade balance deficit that the USA has with Japan, totalling \$43.436 billion in 1991 alone.

ORGANIZATION OF THE BOOK

This book, *International Trade: Regional and Global Issues*, is divided into four parts. The first two parts are regional in nature, and concentrate on international trade issues, referring to Europe in Part I and Asian Issues in Part II. Both parts are preceded by Chapter 1, which is an introduction entitled 'New Realities of International Trade' by Dr Khosrow Fatemi.

Part I includes three chapters. Chapter 2 deals with the competition in the European automobile markets after 1992 and was written by Fahri M. Unsal from Ithaca College and Sandra Richard from Laredo State University. Chapter 3 was written by the late George N. Yannopoulos from the University of Reading in the UK. His paper deals with the 1991 accord between Japan and the EC and discusses a common commercial policy on automobiles. It is my privilege to be able to publish one of Dr Yannopoulos's last works in this book. Chapter 4 also deals with Europe, and was edited by two Professors from the Institute of International Business at the Stockholm School of Economics, Kjell A. Nordström and Jan-Erik Vahlne. This chapter deals with the psychic distance and establishment of Swedish sales subsidiaries during the last one hundred years.

Part II covers international trade issues which refer to Asia. In Chapter 5, Gene E. Burton from California State University, Fresno analyzes the US trade deficit and the impact of Asian trade on it. In Chapter 6, Jong H. Park, a Professor at Kennesaw State College in Marietta, Georgia, discusses the effects of trading blocs on US-Japan relations and with regard to Pacific trade and cooperation. In Chapter 7, Hiro Lee from the University of California at Berkeley and David Roland-Holst of Mills College in Oakland, California also refer to US-Japan trade relations, but their area of research concentrates on agricultural liberalization and its implications on the trade relations between the two countries.

In the second half of the book, Parts III and IV deal with global issues. Part III concentrates on a variety of topics pertaining to global management. In Chapter 8, Attila Yaprak from Wayne State University and David

K. Shaheen from Michigan State University explore the state of the art of international acquisition and the eclectic paradigm. In Chapter 9, Franklin R. Root from The Wharton School and Kanoknart Visudtibhan, Professor at George Washington University, analyze international trade policies as they relate to corporate strategies. In Chapter 10, H. Peter Gray, Professor Emeritus of Rutgers University and Rensselaer Polytechnic Institute, discusses global management issues as they refer to labour force efficiency and adjustment costs.

In Part IV, various subjects related to international trade issues are presented. In Chapter 11, Alfred E. Eckes, Professor at Ohio University, discusses the issue of the escape clause that should have protected American industries and workers from being severely hurt by surging imports in Epitaph for the Escape Clause. Professor E. Ray Canterbury of Florida State University presents a general theory of international trade and domestic employment adjustments in Chapter 12. Finally, in Chapter 13, Linda Longfellow Blodgett discusses the results of an empirical survey of recent shifts in global countertrade.

Laredo, Texas

MICHAEL LANDECK

Acknowledgements

The articles published in this book were presented at the Second International Conference of the International Trade and Finance Association (IT&FA) which took place on 22–25 April, 1992 in Laredo, Texas.

My special thanks go to Dr Khosrow Fatemi, the Executive Vice-President of the IT&FA and Dean of the Graduate School of International Trade and Business Administration at Texas A&M International University, Laredo, Texas, for encouraging me and being my mentor during the preparation of this book. I would also like to express my deepest gratitude to the authors of all the papers that were presented at the conference, and especially for their willingness to revise their excellent research and to allow me to include their work in this book.

I would like to commend Ms Sue Nichols for coordinating this project and for her considerable efforts which greatly contributed to the timely publication of this volume. Finally, I would like to acknowledge my daughter, Edie Landeck, for her administrative help.

Laredo, Texas

MICHAEL LANDECK

Notes on the Contributors

Michael Landeck is Professor of Marketing and International Business at Texas A&M International University (formerly Laredo State University). Prior to his present appointment in Laredo he taught at St Mary's University in San Antonio. He received his Diplom-Kaufmann from the University of Hamburg in Germany with a major in industrial management and a minor in operations research, and received his PhD in marketing from North Texas State University in Denton, Texas. Dr Landeck's major areas of expertise are in marketing research, international consumer behaviour, and North American Free Trade Agreement issues. He served as the Director of the Institute for International Trade, and editor of the *Border Business Indicators*. At present he is editor of the *Southwest Review of International Business Research*. Dr Landeck has over eighteen years of practical experience in a variety of international managerial positions working for multinational corporations in the Middle East, Africa, Europe and the US.

Linda Longfellow Blodgett is Assistant Professor of International Business at Indiana University South Bend, where she has taught since 1987. She received a PhD in international business from the University of Michigan and a PhD in East European History from Indiana University. She has taught in the History Department of the University of Pittsburgh. Dr Blodgett's main research interests are corporate strategy, international joint ventures, and the problems of privatization and marketization in the former Eastern Bloc. Her work on international joint ventures has appeared in *The Strategic Management Journal*, *The Journal of International Business Studies*, and *The Journal of Global Marketing*.

Gene E. Burton is a Professor of Management at California State University, Fresno (CSUF). He holds the BBA and MBA degrees from the University of Texas at Arlington and the PhD in Management from North Texas State University (now called University of North Texas). Prior to his current assignment, Dr Burton served on a special one-year third-world appointment to Somalia funded by the World Bank. Before that, he served for five years as Dean of the School of Business and Administrative Sciences at CSUF. Previously Dr Burton was Chair of the Department of Business Administration at Eastern Kentucky University. He has also taught at Appalachian State University, North Texas State University,

Laredo State University, and the University of Texas at Arlington. His background includes twenty-five years of management experience with Rockwell International and General Electric. Dr Burton is the author of over 250 publications, including ten books and numerous articles in leading business journals. He is an experienced consultant and seminar leader, who has been a programme speaker on business and education topics throughout North America as well as Europe, Africa and Asia.

E. Ray Canterbury is Professor of Economics at Florida State University. He received a PhD in Economics from Washington University in St Louis, MO. Dr Canterbury's areas of research are international trade and finance; the history of economic thought; microeconomic theory including the theory of income and wealth distribution, and technological change; macroeconomic theory including such theories as instability and economic growth. He has published more than forty-five articles in the *Journal of Political Economy*, *Southern Economics Journal*, *The Canadian Economic Journal*, *Challenge*, *Eastern Economic Journal*, and others. Dr Canterbury is the author of eight books including *Foreign Exchange*, *Capital Flows and Monetary Policy: Studies in International Finance*; *Aquaculture and the Developing Countries: A Feasibility Study*; and *The Making of Economics*. He has contributed to sixteen other books.

Alfred E. Eckes is Eminent Research Professor at Ohio University, Athens. He teaches contemporary history, business administration and journalism. From 1981 to 1990 he was a Commissioner and Chairman (1982–4) of the US International Trade Commission. Dr Eckes is writing a book-length study of US trade policy, tentatively entitled, *Opening America's Market*.

Khosrow Fatemi is Dean of the Graduate School of International Trade and Business Administration at Texas A&M International University. He holds a PhD in international relations from the University of Southern California. He has edited six books, six *Proceedings*, and has presented over twenty-five papers at national and international conferences. His areas of research are international trade, the North American Free Trade Agreement, US–Mexico issues and international education. Dr Fatemi is the founding editor of *The International Trade Journal* and editor-in-chief for the *Series on International Business and Trade* published by Taylor & Francis. He is a founding member and serves as Executive Vice-President for the International Trade and Finance Association.

H. Peter Gray is Professor Emeritus of Economics and Management at Rutgers University and Rensselaer Polytechnic Institute and is currently an adjunct professor of international business at the Rutgers University Graduate School of Management. He obtained a PhD from the University of California, Berkeley, in Economics. His current research focuses on the role of profits and technology policy on international competitiveness, the dangers for the stability of the financial system of the steady erosion of the international net worth of the United States, intrafirm trade by TNCs and the theory of economic depression. Dr Peter Gray is a past president of both the Eastern Economic Association and the International Trade and Finance Association. He has also served as a consultant to the International Monetary Fund, the World Bank, the International Labour Office, the US Office of Technology Assessment as well as numerous private corporations.

Hiro Lee is Assistant Professor at the University of California, Irvine. In 1992 he was awarded an Abe Fellowship to undertake a research project on 'Cooperative Trade Strategies for the United States and Japan'. Currently, he is organizing a collaborative research agenda with David Roland-Holst on 'Japan's Emerging Role in Cooperative Economic Development in the Pacific Basin'. Dr Lee's recent articles include 'The Effects of Japanese Industrial Policy on Trade Flows and International Competitiveness', in M.G. Dagenais and P.A. Muet, (eds), *International Trade Modelling* and 'A General Equilibrium Evaluation of Industrial Policy in Japan', in the Spring 1993 issue of *The Journal of Asian Economics*.

Kjell A. Nordström is a research assistant at the Institute of International Business at the Stockholm School of Economics. He received his PhD in international business from the Stockholm School of Economics. Dr Nordström's areas of research are the internationalization process of the firm, economics of the MNC and business policy. He contributed to *Strategies in Global Competition*. Dr Nordström has taught at the Swedish Institute of Management, the Lahore Business School and Beijing Institute of Economics Management and has worked as a consultant for several large Scandinavian MNCs.

Jong H. Park is on the faculty of Economics and Finance, School of Business Administration, Kennesaw State College, Marietta, GA. He received his PhD in economics from Oklahoma State University, Stillwater. His primary teaching and research interests are in the areas of international business, trade, finance and development. Dr Park previously taught at

Oklahoma State University, Stillwater, North Dakota State University, Fargo, and Georgia State University, Atlanta. He also served as a Senior Fellow in Seoul, Korea and was a member of Korea Trade Delegation to Southeast Asia, including Bangladesh, India, Pakistan and Sri Lanka.

Sandra Richard is Chair of the Division of Business Administration and Associate Professor of Business Administration at Texas A&M International University. She received her PhD from the University of Texas, Austin. Her areas of research are management and statistics, including operations research and international business. Dr Richard's articles have been published in *Industrial Management*, *Advanced Management Journal*, *Asian Survey*, and *The Notre Dame Business Review*. She has served on the Board of Directors and holds the office of Historian for the International Trade and Finance Association.

David Roland-Holst is Associate Professor of Economics at Mills College, Oakland, California. He has worked extensively in quantitative analysis of international trade and development and is currently pursuing three multicountry research agendas, one dealing with Japan and its major Pacific trading partners, one on a detailed evaluation of North American trade relations, and one on economic data development for the newly independent republics of the former Soviet Union. Dr Roland-Holst's recent publications include 'Modeling Industry Structure and Conduct in an Applied General Equilibrium Context', in J.F. Francois and K.A. Reinert (eds), *Applied Trade Policy Modeling*, 'Tariffs and Export Subsidies when Domestic Markets are Oligopolistic', with J. de Melo in J. Mercenier and T.N. Srinivasan (eds), *Applied General Equilibrium and Economic Development* and 'Relative Income Determination in the United States', with F. Sancho, in the July issue of the *Review of Income and Wealth*.

Franklin R. Root is Professor of International Management at the Wharton School, University of Pennsylvania. He received his PhD in Economics from the University of Pennsylvania. Dr Root's areas of research are international entry strategies, public policy and MNCs, and international strategic management. He has published over forty professional articles in such journals as *Quarterly Review of Economics and Business*, *Columbia Journal of World Business*, *International Trade Journal*, *Journal of International Business Studies* and others. Dr Root is the author of *International Trade and Investment* (6th edn), *Strategic Planning for Export Markets*, *Entry Strategies for International Markets*, and *International Strategic Management*. He has worked for the United Nations and has done consult-

ing in international business. Dr Root is a past President of the International Trade and Finance Association and is a member of the Academy of Management and the Academy of International Business.

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Jan-Erik Vahlne is Professor and Researcher at the Institute of International Business at the Stockholm School of Economics. He received his PhD in international business from Uppsala University. Dr Vahlne's area of research is the internationalization processes of Western companies in Eastern Europe. He has co-authored *Multinationals: The Swedish Case* and *Strategies in Global Competition* and his articles have been published in *The Journal of International Business Studies*, *International Marketing Review* and *Scandinavian International Business Review*. Dr Vahlne has been a consultant for governments and multinationals and has worked with the Swedish Institute of Management and the Lahore Graduate School of Business. He is on the Board of Directors of the International Trade and Finance Association.

Kanoknart Visudtibhan is Assistant Professor at George Washington University. She received her PhD in Organization and Strategy from the Wharton School, University of Pennsylvania. Dr Visudtibhan's areas of research are in international business strategy, information systems in MNCs and Asia-Pacific business and trade. She co-authored *International Business Strategy: Opportunities and Threats* and has had articles published in *The European Journal of Operation Research*. Dr Visudtibhan is

a member of the Academy of International Business, the Academy of Management and the International Trade and Finance Association.

George N. Yannopoulos was Professor and the Chairman of the Graduate School of European and International Studies at the University of Reading.

Attila Yaprak is Associate Professor of Marketing and International Business at Wayne State University in Detroit, Michigan. He holds a PhD in International Business and Marketing from Georgia State University. Dr Yaprak's areas of research are international business education and research. He is also the Director for the Center for International Business Education and Research (CIBER). Dr Yaprak has published in numerous books and scholarly journals such as *The Journal of International Business Studies*, *The International Marketing Review*, *Management International Review* and *Journal of Advertizing*. Dr Yaprak has served as Associate Editor of *The Journal of Business Research*. He is the current Executive Secretary for the Academy of International Business.

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