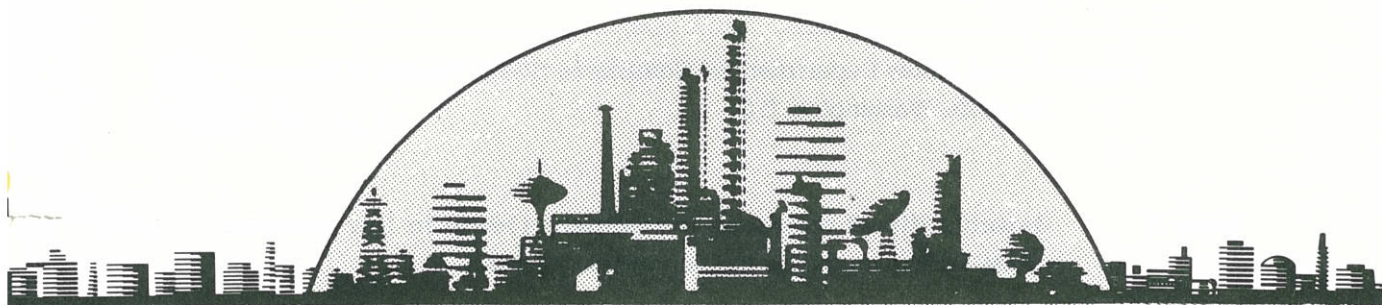


THE RISE OF THE ASIA-PACIFIC : ITS ADVANTAGES FOR MULTINATIONAL ENTERPRISES



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Since the mid-1980s, the world economy order has been undergoing a profound transition. Best known among them is the shift of both economic activities and international economic policy from the Atlantic to the Pacific Rim. Consequently, the Pacific Rim abounds with opportunities for many multinational enterprises (MNEs) from all parts of the world. The emergence of the Pacific Rim region as the fastest growing market makes this region worth studying.

Actually, the whole Pacific Rim is a vast

ocean on which borders numerous countries, stretching from China to New Zealand on one side and from Canada to Chile on the other side of the Pacific Ocean (Dangler 1993). This paper focusses on the study of the Pacific Rim, where foreign investments dramatically increase in this region during the year 1980-1990. Table 1 and Table 2 illustrate the increase of foreign direct investment (FDI) from the two powerful countries' MNEs: the United States and Japan's direct investment in the selected Asia-Pacific countries.

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Table 1 Foreign direct investment: The United States' multinational enterprises in the selected countries of the Asia-Pacific region, year end 1980-1990 (million in US dollars).

Countries	1980	1984	1986	1988	1990
Japan	4,723	16,044	26,824	53,354	69,699
S. Korea	-134	-81	383	456	-216
China	2	7	10	34	83
Taiwan	61	70	177	329	620
Hong Kong	148	659	605	892	1,198
Philippines	73	121	113	140	158
Thailand	6	18	14	55	70
Malaysia	16	21	39	84	50
Singapore	93	208	169	475	1,216
Indonesia	-1	15	37	-	377

Source: United States Department of Commerce (1992), Bureau of Economic Analysis, Washington, D.C.

Table 2 Japan's direct overseas investment (1990) in the selected Asia-Pacific countries (million in US dollars).

Countries	FY 1988	FY 1951-1990
Indonesia	586	9,804
Hong Kong	1,662	6,167
Singapore	747	3,812
S. Korea	483	3,248
China	296	2,036
Malaysia	387	1,834
Taiwan	372	1,791
Thailand	859	1,992
Philippines	134	1,120

Source: OECD: Japan (1992)

Normally, those MNEs do the environmental scanning of the host countries before entering to invest. They consider many factors that might affect their enterprises in both short and long terms. Usually, they decide to invest in the regions that offer many advantages for them. Generally, the increase of foreign investment in the Asia-Pacific region reflects many advantages for the MNEs.

The Advantages of The Asia- Pacific For the Multinational Enterprises (MNEs)

1. Market Orientation Culture

Most of the Asia-Pacific countries have stabilized their economy and are moving rapidly toward market economies. Nics and ASEAN countries, and Japan provide markets adaptable to Western global interest (Tuller, 1991). To multinational enterprises (MNEs) of FDI (foreign direct investment) or joint venture or licensing, the existence of market orientation environment will provide the free market activities,

rivalry, value added activities, and other business climate opportunities. This environment makes it easy for business transactions and efficiency. Their similar trade systems allow them to conduct trade based on market economies, convert currencies, and process transactions efficiently. Moreover, Gordon (1988) indicated that the Asia-Pacific countries have become the world's "economic powerhouse".

Most of the government economic policies in this region specified are designed to attract foreign investment that has led the region to achieve a high economic growth. NICs and ASEAN countries, emphasized on expanding exports and finding niches of comparative advantage in the global economy, rather than using protectionism to pursue import substitution or the reliance upon domestic market (Clark & Chan, 1992). Figure 1 presents the policy-development model of NICs and ASEAN that could generally describe the part of the Asia-Pacific development.

Figure 1 The policy-development model applied to NICs and ASEAN

Outward-oriented -----> Favorable to -----> Rapid growth
Policy export-led growth
conducive to foreign
investment

Source: Hein (1992), p. 503.

2 .

Government Policy on Technology Transfer

Technology is important to MNEs to achieve a level of productivity that allows them to compete with their competitors who wish to capture the same markets. For MNEs of FDI, investment in the Asia-Pacific region with most efficiency and cost effectiveness must go through the transfer of technology or importation of commercialized technologies (Kaynak & Lee, 1988). Government in the effective interfirm

Asia-Pacific region allows firms to identify technologies that are more applicable and appropriate to their needs and to acquire them on terms that are favorable to both buyer and seller. Additionally, governments do not interfere in corporate decision making but they provide support to the process of technology acquisition and innovation. Japan, Singapore, Malaysia, South Korea and Thailand clearly stands out in this regard, assisting companies to identify technology, investment and trade

opportunities through their Trade and Economic Development Board (Kaynak & Lee, 1988).

3. Huge Resource Base

The Asia-Pacific region has a variety of natural resources, raw materials and energy resources. The regional pattern of resource endowments provides a viable basis for a high degree of intra-regional complementarity and interdependence within the region (Dangler, 1993). For MNEs, this factor is important for outsourcing base for their home or regional product strategy. Furthermore, the policies of the Asia-Pacific governments clearly encourage investors to operate a host country based resource. In addition, the investors have been provided with discount price, incentive to enjoy cost saving on export duty, research, storage, freight and etc. For instance, Malaysia is clearly encouraging rubber based industries. MNEs of FDI engaged in this industry will be able to enjoy cost saving and purchase rubber latex from government agencies at a discount rate (MIDA, 1992).

4. Efficient Labor Force

Labor force is Asia-Pacific's strength in supplying a cheap unskilled or semi-skilled labor. Currently, the cheap labor is moving to be more skilled, efficient, and motivated labor force. Several governments in this region have developed programs to assist their citizens in training and manpower development.

One of the most attractive factors for MNEs in this region is the existence of an educated population with several levels of skills in vocational management. This skilled labor force would allow for an easier transfer of technological know-how. In addition, most governments in the NICs and ASEAN region provide funds or assistance to firms for training and retraining employees in order to upgrade the skills of the employee that is equivalent to the technology and productivity

level. Furthermore, the cost of employing them are generally lower as compared to MNEs' home country nationals.

5. Political and Economic Stability

The political stability in the Asia-Pacific region encourages MNEs to invest with relatively low risk. In this region there is no extremely political struggle or antigovernment movement over years after the post war, except a few in Thailand and South Korea. In fact, several governments in the region assures investors of a strong government policies in development and no surprising changes in mid-stream the political stability of the Asia - Pacific countries extend to each of the fundamental level of political organization, state and government. This stability reflects the economic stability of the region.

Furthermore, economic expansion of these countries depend extensively on government monetary and fiscal policies. With a conservative monetary policy, this has led the Asia-Pacific countries to be more manageable with its debts, which promote economic stability.

6. Investment Policy

The countries of the Asia-Pacific region have maintained not only consistent economic, fiscal, and monetary policies but also foreign direct investment policies. Government of NICs and ASEAN, as an example, have therefore acted to set the stage upon which private or foreign companies can act flexible and in response to changing market conditions and competitive opportunities. Singapore, Malaysia, and Hong Kong are leading examples of countries that have aggressively and successfully sought foreign investment. These countries gained foreign confidence by liberating foreign ownership up to 100 percent equity participation. In addition, foreign investors have been

given a high level of protection, tax incentives, low tariff on import technology, and so forth.

Fayerweather (1981) pointed out that the ownership advantage affects the MNEs' operations, control, and economic outcomes. The operation effects means MNEs have potential control of their investment, repatriation of funds, and employment of expatriates at their host country subsidiary. In control effects, MNEs have potentially free in the outcome of their decision making without the influence of partners or host government. In economic effects, MNEs are potential to assign their research and development function and play important roles in global logistic system.

7. Comparative Advantage

Comparative advantage in the Asia-Pacific region has significantly increased in various areas. For instance, the NICs enjoy strong competitive leads in unskilled labor-intensive manufacturers and have also gained new competitive strengths in human capital intensive manufacturers. In ASEAN, agricultural resource-intensive manufacturers have a strong showing in terms of comparative advantage. Indonesia and Malaysia, in particular have tremendous comparative advantage activities. Singapore has lost its comparative advantage in resource-intensive manufacturers but has gained comparative advantage in technology-intensive activities. Additionally, the MNEs can exploit the available comparative advantages as the outsourcing site for their home or regional production base, export supply point, and future globalization strategy.

8. Intra-regional Cooperation

Another advantage to MNEs is intra-regional cooperation which exists between the countries in the Asia-Pacific region. For instance, the formation of Asia-Pacific Economic Cooperation and Association of Southeast Asian Nations offer opportunities for member

nations to exchange ideas. The main forces behind the emerging trend towards intra-regional cooperation in this region are not political but economic. ASEAN has extended their political alliance into a trade bloc (Jones, Frost, & White, 1993). Transcending political and military overtones promotes understanding among members, thus opening more doors for wider trade relations. Here lies the opportunity to MNEs to manage and organize a system of quite complex cross-border inventory, production, transactional relations between their business partners, subsidiaries, and value added chains activities.

9. Market Place

The area is an incentive to prime selection of MNEs as they are sensitive to market signal than any other. Here lies the vast untapped market such as in mainland China, Indo-china, and other parts of the Pacific developing countries (Malaysia, Philippines, Indonesia, etc.). As improvement in standard of living sweeps across Southeastern Asia, consumer demand will create an enormous market in the Pacific Rim region. This region needs consumer goods, technology, and capital goods to build their base. For MNEs, penetration in this market is an opportunity to create a new market niches, market timing, and production improvement.

In addition, some of the Asia-Pacific's region, in both the medium and the long-term, appears to be exciting and bright. Barring unforeseen political developments and disruptive changes in the international economic environment, countries of the region, both developed and developing, can confidently look forward to developing a mutually rewarding symbiotic relationship with one another in their economic pursuits by the year 2000 and beyond. This puts confidence in MNEs' future growth and advance their global competitive position.



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