

Rationalization strategies in response to reduced trade barriers

The reduction or elimination of bilateral Canada-United States trade barriers radically alters the international environment for MNE operations. Trade barriers induce international interdependence by raising the value of domestic inputs to foreign owners. Corporate MNE strategy in response to this protected environment in Canada has often encompassed establishment of branch plants to supply the protected Canadian market. These branch plant operations typically produce inefficiently because of the absence of competitive pressures, while the protected Canadian market is too small to warrant efficient output levels. Corporate MNE strategy in response to a less-protected environment requires the MNE to re-define the role of the Canadian branch plants in its overall corporate strategy.

Rationalization is a corporate strategy that renews the branch plant with the most advanced production processes. It also narrows each plant's output to specialized units and the scale of operations is expanded beyond the requirements of the previously protected market to furnish the corporation's total output. For example, Massey-Ferguson rationalized its European production after the European Common Market was established. This strategic response took the form of building wheel assemblies in one location, chassis in a second, engines in a third, and assembling finished tractors in a fourth. Thus, rationalization can integrate previous branch plants into the MNEs' total productive processes. It replaces interdependence induced by trade barriers with economic interdependence achieved by a more productive international division of labour.