Procedures for assessing an appropriate value at the time of buy-out would have to be agreed upon in advance, as well as procedures for arbitration should disputes arise.

Most of the advantages of private enterprise are preserved. The foreign firm brings in capital, together with technology, market access and a team, possibly with local experience, and the overhead facilities and international experience which the firm can provide are thus made available.

At the same time the fears which local governments or public opinion may feel are removed. The opportunity for exploiting indefinitely a monopoly or oligopoly position no longer exists. The fear of foreign ownership and domination is removed.

The TNC, on the other hand, acquires a guarantee against expropriation, combined with the incentive to enjoy a share in the profits. Clearly it would still carry the commercial risks of failure, but political risks would be eliminated.

The buy-out arrangement after an agreed period releases capital and knowledge. These very scarce resources can thus be used on a revolving basis for initiating and pioneering new ventures and are freed from maintaining a going concern, which can more easily be transferred to local shoulders. The "spread effects" of enterprise on the rest of the economy are thus increased.

The scheme would be particularly suitable for large-scale agricultural enterprises and for countries with a small entrepreneurial and managerial class. If new enterprises were successfully established, existing ones might also be converted into this type. Regimes committed to replacing foreign by domestic economic activity might, instead of expropriation, be persuaded to work for the transformation of foreign-owned enterprises into the new type of joint venture.

If such a scheme were to be accepted by the parent governments, it would be desirable to present it as a form of transfer which combines adaptability to different circumstances with sufficient concreteness to have an appeal. It would need to be announced with a good deal of publicity, after careful preparation and consultation with selected host governments and TNCs.

Boston

Paul Streeten

Multinationals from Large and Small Countries: A Philippine Case Study

1. Introduction

An important determinant of the benefits and costs of direct foreign investment (DFI) to a host country is the latter's policy environment. Multinational corporations (MNCs) introduce a package of capital, production and management technology, and market (particularly international market) knowledge. The principal issue for the host country is to maximise its share of the rents accruing to these factors, consistent with its own additional objectives such as the development of indigenous entrepreneurship and regional dispersal, and consistent also with community attitudes towards foreign ownership.

The source of DFI is also one of some significance, for at least two reasons. First, most countries seek to avoid undue reliance on one country, or a very small number, for DFI flows. This is not only in deference to political sensitivities, nationalist sentiment, or even fear of foreign manipulation. There are also important economic reasons. A diversity of DFI sources expands information flows concerning technology, overseas markets, and regulation of foreign entry, and therefore enhances the bargaining power of host governments and firms, especially when prior experience in dealing with foreign investors is limited.

Secondly, there is the possibility of systematic differences in the behaviour of foreign investors from different countries, including firms' propensity to export, to enter into joint ventures, to transfer and modify technology, and to allow autonomy to local partners. There have been numerous studies contrasting the behaviour of United States and Japanese firms, much of it deriving from the Kojima hypothesis, and on

1 There is now a voluminous literature on this subject. Some of the more important references include KOJIMA (1978), ADams (1974), LIEF (1981), ONADA (1979), and SAKAI and KAIDE (1980).
MNCs from developing countries. But there has been much less attention given to differences in the behaviour of MNCs according to the size (geographical and economic) of the investor's home country.

Hymer (1979) provides, at least for the United States, an argument for why firms from a relatively well-endowed economy with a large geographic area would develop the capability and orientation to engage in foreign investment relatively early. Such firms would also tend to be relatively large, and this would have implications for their behaviour in comparison with firms from smaller economies, which enter the area of foreign investment later and which would tend to be relatively smaller. How might the behaviour of the two sets of MNCs differ?

First, MNCs from large countries (hereafter, large country investors, or LCIs) are more likely to have globally diversified economic interests, supported by their large resources. Second, and related, LCIs have well developed international market networks. They are able, it is maintained, to facilitate access to their own large domestic markets, with important implications both for intra-firm commercial transactions, and for the sales orientation of the overseas subsidiaries. Thirdly, their strength — a combination of sheer size, possession of international brand names, extensive overseas experience, and access to superior technology — is likely to have implications for their competitive position within the host economy, and for their relationship with local partners in joint venture activities. In particular, they might be able to exercise more control in joint ventures than can MNCs from small countries (hereafter, small country investors, or SCIs), who lack some or all of these attributes. Lastly, and more generally, investors from large and small countries might be expected to reflect their domestic environment in numerous other ways. In the words of Agmon and Kindleberger (1977, p. ix), in the introduction to their volume, "what was meant particularly was that small was politically lacking in power, except insofar as it could gain adherents or shine by example-setting". Certainly the presence of SCIs relieves a commercial relationship of any credible fears in the host country of political or other control, at least from these investing countries.

The authors have undertaken surveys of foreign investors in Philippine manufacturing industry which provide a basis for examining these questions, from a "large-small" perspective. One survey focused on MNCs from industrialised countries with a long history of outward investment (primarily the US, but also including Japan and Western Europe), and the other on an industrial country for which this is not the case (Australia). Although the two surveys were conducted independently, to a considerable degree they focused on similar questions, and the time frames are comparable. The purpose of this paper is to compare the results of these surveys.

Foreign investment has been a contentious issue in post-independence Philippine history, and DFI flows have been sensitive both to the economy's performance and to domestic policies affecting foreign firms. In 1948 an economic census reported that foreigners controlled almost 50 per cent of the assets in seven non-financial sectors of the economy. In the next two decades, American firms continued their dominance of DFI in the Philippines, in 1970 accounting for almost 80 per cent of the stock of DFI. Since 1970, however, there has been a major diversification of investment sources. From 1970 to 1984, American firms still accounted for half of all DFI, but Japan and, to a lesser extent, several other countries have become increasingly important. Manufacturing has been the major recipient of DFI flows.

The authors' surveys were confined to manufacturing. In each case there were detailed interviews with senior executives, and a questionnaire was completed. The survey of LCIs in late 1980 and early 1981, by Lindsey, examined 28 large firms with at least 30 per cent foreign equity. They were mainly affiliated United States (17) and Japanese (7) MNCs, although a small number of European firms were included. Twenty-four of the 28 participating firms in this survey were among the 100 largest manufacturing firms in the Philippines in 1979. Preliminary survey results were circulated as discussion papers while the two authors were visiting faculty members of the School of Economics, University of the Philippines. See C.W. Lindsey, "The Development Contribution of Multinational Firms in the Philippines: A Summary of a Survey of 26 Firms" and H.C. Hill, "Foreign Investors from Small Countries: A Philippine Case Study", these drafts are available from the authors on request.

survey was undertaken by Hill in late 1981 and early 1982. It focused on 19 Australian investments in Philippine manufacturing, also adopting a 30 per cent cut-off point. There was considerable overlap in the information sought, and we are confident that each survey provides a reasonably good indication of the characteristics of the larger group of LCIs and SCIs.

2. Firm and industry characteristics

The two surveys included both joint ventures and subsidiaries, the latter defined as firms with at least 70 per cent foreign equity. We selected only firms which had at least 30 per cent foreign equity, as pretest surveys found that in firms below this figure the foreign partner generally did not play an active role.

We do not have data to test directly our assumption that LCI firms are larger than SCI firms. However, indirect evidence to support this proposition can be found by comparing the sizes of the Philippine subsidiaries and joint ventures in our surveys. Firms in the LCI survey had average sales of slightly over 200 million pesos in 1979, and employment of 580. By contrast, firms in the SCI survey, for which 1981 was the reference point, had sales of only one-third those of the LCI firms (67 million pesos) and an average workforce of just over half (295 workers). Excluding one very large firm in the latter (sales of over 300 million pesos and employment of 1,000) results in appreciably lower averages—sales of 33 million pesos and employment of 250.

There was considerable variation in the extent of foreign ownership in the surveyed firms, and the patterns were not dissimilar (Table 1). However, this covers up some rather important differences within the LCI survey. American MNCs obviously preferred total (98%+) control, whereas the Japanese MNCs consistently held less than a majority stake. This difference can be explained on the basis of economic policy and demands of Filipinos for joint venture participation at date of investment, as well as on political constraints and styles of investors from the two countries.

On the other hand, even though Australian firm investment occurred during the same recent period as Japanese investment (after the mid-1960s), there is no real pattern. Neither is there a pattern to

<table>
<thead>
<tr>
<th>Share (%) of Total</th>
<th>Small-Country</th>
<th>All Firms</th>
<th>Large-Country Survey</th>
<th>Minority</th>
<th>Majority</th>
<th>Subsidiary</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Minor</td>
<td>Major</td>
<td>Subsidiary</td>
</tr>
<tr>
<td>19</td>
<td>19</td>
<td>19</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>European</td>
<td>19</td>
<td>19</td>
<td></td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

European investment. This would suggest that the Australians and Europeans possess neither the political and economic power of the Americans, nor the economic power and political caution of the Japanese in the Philippines. Decisions are based more on firm and industry specific requirements. The lower equity shares for some of the SCIs may be attributed to two factors, aside from the changing policy environment. The first is a positive preference joint ventures in a considerable number of cases. Many of these firms have had limited overseas experience, and lacked the resources and know how to maintain overseas subsidiaries. They therefore saw local partners as desirable for the benefits they conferred: knowledge of local business requirements and market prospects, contacts in the government bureaucracy, and the management of labour relations problems. The second factor, related to the first, was that the SCI firms generally did not possess international brand names and long-established overseas operations. Consequently, they have less bargaining power, both compared to local partners and to the government administrative arm, the Board of Investments (BOI).

Firms in the two surveys were located in a wide range of industries; however, there was little overlap, and their sales orientation differed
significantly. Do these factors provide some clues regarding the "competitive advantages" they possessed and which induced them to establish overseas in the first place? The theory of DFI, developed by Hymer (1976), Caves (1982) and Dunning (1979), maintains that foreign investors require certain advantages in order to overcome the intrinsic costs of "being foreign", which they may exploit through equity investments rather than through exports or licensing agreements. The theory predicts that foreign firms will tend to locate in industries characterised by high R and D expenditure (a proxy for technology), high advertising expenditure (as evidence of product differentiation), and high seller concentration (to exercise market power).

Data on these attributes for Philippine manufacturing are not generally available. A partial proxy for the skill and (physical) capital intensity of industries in which the surveyed firms were located is value added per employee (Lary 1968). The industries were ranked according to this measure on the basis of the 1980 Survey of Manufactures, the year which corresponded most closely to the two surveys. The rankings reveal that SCIs tended to locate in less capital-intensive industries. The least capital-intensive quartile of industries contained 16 of the 29 activities in which SCI firms were engaged, but just three of the 49 for LCI firms. Twenty-one of the 49 activities in which LCIs were engaged were among the 10 most capital-intensive industries; for SCIs the corresponding figure was nine out of 29, but six of these were in the industry ranked tenth, and a further two in that ranked ninth.

The most recent published seller concentration data refer to 1970, and they indicate no clear pattern. LCI and SCI firms were found in industries characterised by both high and low concentration ratios. To gain some additional idea of the structure of industries in which the firms located, firms were asked to provide an estimate of their own market shares. Most of the SCI firms producing for the domestic market commanded a significant proportion of the domestic sales: one-third estimated they controlled more than 60 per cent of the market, and a further half believed their share was between 40 and 60 per cent. The issue of market power for the LCI firms was more complex since they normally produced a wider range of products. In some cases they controlled at least 50 per cent of the market; where they competed with domestic firms, the market was usually segmented, with the foreign investors producing the more expensive products. Other correlates of the industrial location of the firms surveyed are not so clear-cut. The LCI firms were generally found in industries in which MNCs owned a significant proportion of assets. By contrast, the shares for SCIs were quite low, especially for export-oriented investments. There was practically no association between the firms' location and effective rates of protection for 1974.8

The two groups of firms differed substantially in their sales orientation. Among the LCIs, only eight exported in any quantity, and for six of these exports constituted just five to 15 per cent of sales. Only two of the 28 firms, which exported between 60 and 70 per cent of their sales, could be meaningfully described as export-oriented. The picture was rather different for the SCIs. Four of the 19 firms exported virtually all of the output, while another three exported over half. Only seven firms sold 95 per cent or more of their production locally. Part of the difference in sales orientation between the two groups has to do with the age of the firm. Most of the SCIs were established at the same time as the Philippine government began to dismantle the pervasive anti-export bias which characterised the country's trade regime in the 1950s and 1960s (see Tan, 1986, 1979). By contrast, the results of the LCI survey suggest it is unlikely that foreign investors which are initially oriented towards the domestic market will shift to exporting without substantial pressure.

Age of investment is not the only explanation for the differences, however. As noted, many of the LCIs had globally diversified operations, and aimed for a strategy of — in the words of one respondent — "a presence in every market". Since there was little to recommend the Philippines as a base for regional activities at the time of investment, these firms aimed for little more than domestic market expansion. On the other hand, the more labour-intensive Australian firms were attracted to off-shore manufacturing investments, which in turn were reflected in a higher propensity to export. Moreover, because they lacked an extensive network of overseas affiliates, they were more likely to attempt to secure entry to neighbouring regional markets through exports.

8 Note that the 1974 EPR estimates were selected in preference to those for the 1960s because they corresponded most closely to the establishment or planning period for most of the SCI firms and the non-American LCI firms.
3. The decision to invest

To determine the most significant reasons for firms investing in Philippine manufacturing, executives in both surveys were asked to assess the relative importance of a wide range of possible factors. The factors listed in both surveys were broadly similar, and the same ranking system was employed, that is, from a rank of “extreme importance” (5) to “no importance” (0). The surveys produced some common findings, but also some differences (Table 2). It is useful to consider these factors under three broad headings — those related to domestic market sales, to exports, and to a range of other factors.

**Table 2**

<table>
<thead>
<tr>
<th>Large-Country Firms</th>
<th>Factors</th>
<th>Small-Country Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Extent Importance</td>
<td></td>
<td>No Extent Importance</td>
</tr>
<tr>
<td>0 1 2 3 4 5</td>
<td></td>
<td>0 1 2 3 4</td>
</tr>
<tr>
<td>(A) Related to Domestic Market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Growth of market potential</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) High international transport costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Access to domestic market (tariffs, restrictions, regulations)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Proximity to market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Competition from other MNC's local affiliates or from domestic producers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(B) Related to Export Markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Low cost of labour</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7) Using the Philippines as an export base</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(C) Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(8) Locally available raw materials or intermediate inputs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(9) Philippine government incentives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(10) Reluctant to share technology through licensing agreements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(11) Breakdown of previous licensing or export arrangements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 3 4 6 5 4</td>
<td>14 3 1 0 1 0</td>
<td></td>
</tr>
<tr>
<td>10 5 4 2 1 5</td>
<td>3 4 6 4 2 0</td>
<td></td>
</tr>
<tr>
<td>19 3 1 3 0 1</td>
<td>9 2 3 2 2 1</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Firm Surveys.

Several factors are related to the *domestic market* motive. Two, in particular, were important in both surveys. The first was “growth of market potential” (item 1 in the table) a general objective based on the country’s large and growing population, and — at the time of most investments — on the widely-held view that economic prospects were encouraging. Another factor is “access to domestic market” (item 3). Especially for consumer goods, Philippine trade regimes have dictated that the only feasible means of market access is through a direct presence in the market. Effective rates of protection in Philippine manufacturing have been among the highest in East and Southeast Asia (see Tan, 1986), and foreign exchange controls have been in force. These two factors were very important for the 27 LCI firms — 20 of the 27 firms assigned a rank of ’4’ or above to the first, while 16 did so in the case of the second. The two were of somewhat less importance for the SCI firms. This reflects the fact that the latter’s higher proportion of restrictions than the LCIs because most of their investments were in intermediate manufactures, a category which generally receives lower protection.

Several additional factors were also mentioned in this first general motive. “Proximity to market” (item 4) was significant for LCIs, as would be expected given their local market orientation. In a small number of cases, products were expensive or not easily transported in their final form, so transport cost savings dictated local production. Among the LCIs, “potential competition” (item 5) from other MNC affiliates or from domestic producers was a moderately important explanation. This is essentially a defensive motive to maintain market shares, and is particularly associated with oligopolistic industries (see Knickerbocker, 1973, for an elaboration of this theory). For the SCIs, such a consideration was of little importance. Most are not competing against each other on a global basis, let alone against larger MNCs.

Two factors are related to the second general motive, that of *export markets*. The first, “using the Philippines as an export base” (item 7), was of relevance only to SCI firms. In most cases it was linked to the availability of cheap labour, as a springboard for exports, but some firms also mentioned access to other ASEAN markets and even the United States, given the “special relationship” between the two countries. The second factor, “low cost of labour” (item 6), was by far the most important consideration for SCI firms, and not only for the
exporters. Cheap labour, it was noted, rendered local production more profitable than exporting from the home base. By contrast, although low labour costs were of some importance to LCI firms, they were less so than either market potential or trade restrictions, and they had little to do with exports.

Why did the relative importance of labour costs differ so markedly between the two groups of firms? The first reason, as noted, is the differing sales orientation of the two. Secondly, the LCIs were more likely to produce brand-name products in oligopolistic markets, in which case wage costs are a less significant consideration. Finally, and related to the second, the LCIs were generally more capital-intensive operations, and so wages formed a smaller percentage of total costs. Several executives in these firms stated that they were more concerned with the stability (and hence predictability) of wages than their level.

Several other factors were found to be of limited importance. The more interesting of these was “Philippine government incentives” (item 9), which a majority of firms in both surveys considered of little significance (by assigning a rank of ‘2’ or less). This may appear surprising in view of the range of incentives introduced, especially following the imposition of martial law in 1972, but it is consistent with the finding that most foreign investors have not sought such incentives. Many other surveys have reached the same conclusion (see, for example, Dorrance and Hughes, 1984). The reason is not that incentives do not affect profitability — especially at the margin — but that other factors (political stability, the regulatory regime) outweigh the potential benefit of these incentives. Moreover, some firms were wary of the additional scrutiny implicit in the granting of incentives.

4. Local participation

It was noted above that SCI firms were most likely to enter into joint ventures, and that many revealed a positive preference for such an arrangement. In this section we explore in more detail the nature of joint venture relationships in the two groups of firms, highlighting in particular any important differences. Consider first the number of expatriate personnel employed on a long-term basis, which is of relevance to the control exerted by the foreign partner and, indirectly, to technology spin-offs to local firms. In both cases, surprisingly few expatriates were employed. Among the SCI firms the average was 1.5, while the modal number was one; among the LCI firms the modal number was actually zero, while the average was almost two. Among the LCIs, expatriate employment was relatively more important for joint venture operations. The explanation in most cases is that the older American MNCs have reached a stage where the introduction of expatriate staff is no longer necessary. Adjusting for firm size, the difference between the LCIs and SCIs was insignificant, especially when allowance is made for the fact that some of the SCI firms, being at the end of their startup phase, required more foreign input.

It is useful to examine the nature of this participation in more detail, specifically with reference to the selection of products and technology. Executives among the SCIs were asked to indicate which partner had primary responsibility for major decisions regarding products and technology. The survey of LCIs asked a similar question, although the primary issue was the geographic locus of power rather than the relative importance of local and foreign partners. The sizeable number of replies indicating local or joint responsibility suggests substantial local participation in the case of SCIs. Among the LCIs, substantial differences were evident between the joint ventures and subsidiaries: foreign partners (or firms) played a more significant role in subsidiary operations, as would be expected. This was especially so in the selection of technology, where in only one case was the local firm the major decision-maker. There can be no automatic presumption that decisions made by the local firm, in the case of LCIs, necessarily implied greater Philippine participation. However, it is not unreasonable to assume that the devolution of control to the host country also entailed greater Philippine management participation, particularly for joint ventures, and to this extent the two surveys are broadly comparable.

The survey results reveal differences both between LCI and SCI firms, and between different areas of decision-making. In both surveys local partners and firms exerted a good deal more authority in the selection of products than of technology. In only three firms, in each survey, did the foreign partner or firm maintain primary responsibility for the former, a much smaller number than for technology selection.

There were also differences between the two groups of firms. In the four SCI firms that were almost entirely export-oriented the local partner contributed little to either product or technology selection, since the domestic market was of no importance. Putting aside these
Both groups of firms were asked to compare their technology in use in the Philippines and at home. The pattern was broadly similar: a majority in each survey answered that, at the time of establishment, the technology was comparable. But over time, it was argued, differences had and would emerge because MNCs would gradually adapt to the labour-abundant environment and because the pressure for technology innovation would be greater in the home plant.

Of the 28 LCI firms, 18 responded that technologies in the operations at home and abroad were not dissimilar; a further six indicated that their equipment resembled that in use in home country plants at an earlier period. Among the SCI firms, there was surprisingly little difference in production techniques between the two countries. The findings from the SCI firms, in particular, differ from some other surveys of DFI in the Philippines, which have found that foreign investors in the Philippines do modify their technology and adapt to the local environment (see Lindsey and Valencia (1982) for a survey of the evidence). Unlike some of the other differences in these firm surveys, however, this result is almost certainly attributable to the age of the investment. Just as the LCI firms gradually adapted to the new environment, so the more recently-established SCI firms appeared to be doing so. Several executives indicated that technology modifications were planned, while others envisaged receiving discarded equipment from the home plant when the latter undertook a modernisation program.

To the extent that there were differences in technology between the Philippine plants and those abroad, what were the main factors? As in an earlier section, respondents were asked to assess the relative importance of a range of explanatory factors. In both cases market size and factor prices (asked from a different perspective) were the most significant factors (Table 3). Among the four SCI firms which exported, market size was irrelevant, but for the remaining SCI firms, and a majority of the LCIs, the smaller domestic market frequently did not justify the use of scale and capital-intensive technology. Factor prices were also found to be important. For the LCIs, high equipment costs in the context of a much smaller market constituted a basis for a modification in technology, as did wage costs for those firms responding

---
6 An indication of the difference in scale of operations was that, of the 18 SCIs for which the composition was relevant, output in five of the Philippine plants was less than 10 per cent that of the headquarters, and for a further six it was between 10 and 30 per cent. For the LCI firms the differences were greater still.
to this question. Among the more export-oriented SCI firms, the low cost of labour encouraged the adoption of more labour-intensive technologies to achieve international competitiveness. Neither government incentives nor the attributes of skilled Filipino workers was found to be especially important in the two surveys. Consequently, the differences between the two groups of firms on technology-related issues were not great and, where they did exist, they could generally be explained in terms of the age of investment.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Large-Country Firms</th>
<th>Small-Country Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market size</td>
<td>0 1 2 3 4 5</td>
<td>0 1 2 3 4 5</td>
</tr>
<tr>
<td>Philippines incentives</td>
<td>1 1 1 2 5</td>
<td>1 2 3 2 1</td>
</tr>
<tr>
<td>Technicians and</td>
<td>1 1 5 14 6 2</td>
<td>7 2 3 3 1 0</td>
</tr>
<tr>
<td>Cost</td>
<td>0 0 1 4 12 12</td>
<td>0 0 1 1 6 8</td>
</tr>
<tr>
<td>Wage cost</td>
<td>1 2 3 3 5</td>
<td>0 0 1 1 6 8</td>
</tr>
</tbody>
</table>

Table 3

6. Conclusion

It is important to emphasise, again, the importance of the domestic policy environment in assessing the benefits and costs of foreign investment. From the host country’s viewpoint, this is a significant consideration in attempts to maximise its share of the rents accruing to factors of production introduced by foreign investors. Nevertheless, the source of these investments is of interest, both where one country is the dominant investor — as was the case in the Philippines up to the early 1970s — and because much of the recent literature on foreign investment has suggested that significant differences are evident among foreign investors.

H. Hill - C.W. Lindsey

REFERENCES


European Community Tariff Preferences and Foreign Direct Investment *

1. Introduction

The effects of non-discriminatory tariff changes on a multinational firm's choice between exports and foreign production in the servicing of an established market have been extensively documented in historical and statistical studies (reviewed in Caves, 1982, pp. 40-41) and analysed rigorously by Horst (1973). Much less analysed and only to a limited extent statistically investigated is the impact of discriminatory tariff changes of a non-reciprocal character on the locational choices of multinational enterprises (MNEs).

Non-reciprocal geographically discriminatory tariff reductions have been widely used to provide improved market access to all or selected groups of exporters from less developed countries. The Generalised Systems of Preferences (GSP) offered by several developed market economies, the Lomé convention of the EC covering a wide range of export items of the associated African, Caribbean and Pacific states (ACP) and the development cooperation agreements of the EC with the Maghreb and Mashrek countries in the Mediterranean region are examples of discriminatory tariff preferences of a non-reciprocal nature. The GSP discriminates against other industrialised countries and the centrally planned economies of Eastern Europe whilst the Lomé convention and the Mediterranean agreements of the EC discriminate both against the above groups of countries and a host of other “less privileged” developing nations particularly in Asia and Latin America.

The tariff realignments brought about by such preferential trading arrangements give rise to both trade creation and trade diversion.

* The helpful comments of my colleagues J. Cantwell and M. McQueen are thankfully acknowledged.