

Washington University in St. Louis

Washington University Open Scholarship

Murray Weidenbaum Publications

Weidenbaum Center on the Economy,
Government, and Public Policy

Policy Study 113

9-1-1992

Responding to Foreign Competition: Overcoming Government Barriers

Murray L. Weidenbaum
Washington University in St Louis

Harvey S. James Jr

Follow this and additional works at: https://openscholarship.wustl.edu/mlw_papers



Part of the [Economics Commons](#), and the [Public Policy Commons](#)

Recommended Citation

Weidenbaum, Murray L. and James, Harvey S. Jr, "Responding to Foreign Competition: Overcoming Government Barriers", Policy Study 113, 1992, doi:10.7936/K7Q23XD4.
Murray Weidenbaum Publications, https://openscholarship.wustl.edu/mlw_papers/162.

Weidenbaum Center on the Economy, Government, and Public Policy – Washington University in St. Louis
Campus Box 1027, St. Louis, MO 63130.

Other publications available in this series:

- 102. **The Retreat of the Elderly Welfare State**, Richard B. McKenzie
- 103. **The First European Merger Boom Has Begun**, Roy C. Smith and Ingo Walter
- 104. **Global Warming: Do We Know Enough to Act?** S. Fred Singer
- 105. **Why Environmentalists Should Be Efficiency Lovers**, Bruce Yandle
- 106. **Who Should Take Out the Trash?** Kenneth Chilton
- 107. **Airline Deregulation and Air-Travel Safety: The American Experience**, Richard B. McKenzie
- 108. **Environmental Dialogue: Setting Priorities for Environmental Protection**, Kenneth Chilton
- 109. **Clean Water — Murky Policy**, James Lis and Kenneth Chilton
- 111. **The "Fortunate Fifth" Fallacy**, Richard B. McKenzie
- 112. **Pricing Environmental Risks**, W. Kip Viscusi

Center
for the
Study of
American
Business



***Responding to Foreign
Competition: Overcoming
Government Barriers***

by Murray Weidenbaum and
Harvey S. James, Jr.

Policy Study
Number 113

September 1992

Additional copies are available from:

Center for the Study of American Business
Washington University
Campus Box 1208
One Brookings Drive
St. Louis, Missouri 63130-4899
Phone: (314) 935-5630



Contents

Responding to Trade Barriers.....	1
Responding to Investment Barriers.....	4
Responding to Other Governmental Barriers	7
The Feedback on Government Policy.....	11
Conclusion.....	13
Notes.....	16
Appendix.....	18

List of Tables & Figures

Figure 1:	Variations in U.S. Business Responses to Global Markets in 1990	6
Table 1:	Tensions Between Developing-Country Goals and Business Activities	14
Table A.1:	Number of U.S. Manufacturing Investment Activities Abroad, by Industry, 1988-1990	20
Table A.2:	Number of U.S. Manufacturing Investment Activities, by Area, 1988-1990	21
Table A.3:	Number of U.S. Firms Making Acquisitions, by Industry, 1988-1990	22
Table A.4:	Number of U.S. Firms Engaged in Joint Ventures, by Industry, 1988-1990	23
Table A.5:	Number of Firms Building New Plants or Expanding Existing Facilities, by Industry, 1988-1990.....	24

Copyright © 1992 by the Center for the Study of American Business.

All rights reserved.

Table A.6:	U.S. Manufacturing Investment Abroad, by Size of Firm, Geographic Area, 1988-1990	25
Table A.7:	Types of U.S. Manufacturing Investment Abroad, by Size of Firm and Type of Investment, 1988-1990	25
Figure A.1:	Proportion of U.S. Manufacturing Investment Abroad in Acquisitions, by Area, 1988-1990.....	26
Figure A.2:	Proportion of U.S. Investment in Joint Ventures, by Area, 1988-1990.....	26
Figure A.3:	Proportion of U.S. Investment in New/Expanded Facilities by Area, 1988-1990.....	27
Figure A.4:	U.S. Manufacturing Investment in the European Community, by Size of Firm, 1988-1990	27
Figure A.5:	U.S. Manufacturing Investment in Asia, by Size of Firm, 1988-1990	28

Technological progress makes possible, and economically feasible, a variety of business innovations which can overcome the obstacles to international trade and investment imposed by most countries. These barriers take many forms, ranging from tariffs to quotas on trade to restrictions on foreign ownership of domestic business — but the global enterprise increasingly learns how to overcome them, albeit at a price.

Responding to Trade Barriers

For a variety of political reasons — mainly to “protect” home industry owners, managers, and employees, but sometimes on ostensibly national security grounds — governments often erect barriers to international commerce. The most notable are tariffs, quotas, domestic content restrictions, and reciprocity rules. In a 1991 survey, 45 percent of U.S. firms reported that trade barriers imposed by other countries presented the greatest impediment to selling abroad.¹

Exporters can absorb the added costs imposed by governments — at least to some extent. In the case of quotas imposed by the importing nations, companies frequently shift to higher-priced items on which unit profits are also greater. This was the response of Korean and Taiwanese shoe producers in the late 1970s to numerical limits on the imports into the United States of shoes from those two countries.²

In the early 1980s, American purchasers of Japanese-made automobiles often found that they were required to buy all sorts of high-priced extras and that they were paying as much as \$2,000 above the sticker price for the reduced supply of Toyotas, Nissans, and other Japanese automobiles. In that way, the Japanese producers actually benefitted from the “voluntary” restrictions on their exports to the United States. They increased their profits substantially in the face of quantitative limits on their exports of cars to the United States. While the Japanese producers exported about 30 percent of their auto production to the United States during that period, they earned approximately one-half of their profits from sales in the United States.³

Murray Weidenbaum is Director of the Center for the Study of American Business at Washington University in St. Louis. Harvey S. James, Jr. is the John M. Olin Fellow at the Center. This research was supported by a grant from the William H. Donner Foundation.

When faced with more onerous obstacles to international trade, businesses draw on a variety of alternatives to direct exporting. They set up new manufacturing facilities (so-called greenfield operations) in the host nation. John Deere was one of many companies to establish production facilities in Europe in the 1950s in order to avoid the 18 percent tariff enacted following the formation of the European Common Market.⁴

This type of response continues today. In 1991, Monsanto's low-calorie sweetener NutraSweet was hit with a very high duty in response to a charge of dumping in the European Community (EC). In 1992, the company entered into a joint venture with Ajinomoto, a Japanese food and pharmaceutical company, to build a plant in France to produce for the European market. One senior NutraSweet official described the situation very directly:

Although there may be evidence to the contrary, our experience only tells me that you have to be in Europe if you want to do business in Europe . . . You can't sit offshore somewhere and ship your product in.⁵

Many Japanese manufacturers moved the production of such products as textiles, watches, televisions, cameras and calculators to facilities in Malaysia, Indonesia, Thailand, Singapore, and the Philippines in response to the restrictive trade practices of some of their major markets.⁶ Japanese automakers are also producing automobiles in the United States on a large scale. This approach provides the Japanese firms direct access to the markets of the local economies in which they produce and minimizes their exposure to adverse policies by the host government. It also permits the Japanese companies to export to markets in other nations that maintain barriers against products made in their home territory. For instance, Honda sells cars to Taiwan, South Korea, and Israel from its manufacturing plant in Ohio. Those three countries have traditionally prohibited the importation of automobiles directly from Japan.⁷

Similarly, Northern Telecom, a Canadian telecommunications company, conducts business with Japan through its U.S. subsidiaries, since Japanese firms are considered to favor U.S. over Canadian telecommunications companies. This point was made directly by a Northern Telecom official, "The reality is that we probably could not have penetrated Japan out of Canada."⁸

Firms also respond by acquiring existing local companies. This has been a particularly important strategy for foreign busi-

nesses positioning themselves in response to the integration of the European market. Many American and Japanese companies fear that the removal of internal regulatory and economic barriers in Europe will result in an increase in reciprocity requirements and local content restrictions. Thus, acquisitions increased steadily during the mid- to late-1980s as firms sought to gain a foothold there.⁹

Examples in 1990 include Emerson Electric's purchase of the French firm Leroy-Somer, General Electric's acquisition of the United Kingdom's Burton Group Financial Services, American Brands' buyout of Scotland's Whyte & Mackay Distillers Ltd., and Scott Paper's purchase of Tungram Company of Germany.¹⁰

Other alternatives that business firms frequently rely upon to develop positions in the markets of other nations include subcontracting production, purchasing locally, and developing products jointly with local firms.

To overcome political objections to goods produced by workers in other countries, some multinational corporations set up so-called "screwdriver" operations — assembly plants using key components manufactured in the home country and performing no R&D locally. Thus, the economic contribution in the host country is minimized. Japanese companies are especially guilty of using this technique. One analyst has used the term "rainbow" to describe this tendency of large Japanese firms, "The U.S. plant is situated here, the mother plant is situated over in Japan and nothing touches in between . . . and the pot of gold is at the other end."¹¹

In a more overt move to reduce opposition to foreign firms "taking away American jobs," Toyota announced in mid-1992 its plans to start buying parts from a U.S. competitor, Chrysler. Toyota will buy charcoal-containing canisters (used in emission-control systems) for its Georgetown, Kentucky, factory which produces the Camry. It also expects to export some of the canisters to Japan to use in its cars made there. In a less publicized manner, Chrysler has been producing parts for Mitsubishi for many years. Ford and General Motors are also among Toyota's North American suppliers.¹²

Although the principal explanation for onshore production by Japanese producers is as a response to U.S. protectionism, many U.S. observers believe that such investments are also a hedge against even more stringent measures and may even head them off.¹³

Moreover, joint ventures, particularly those involving the operation of manufacturing facilities, are often necessary to over-

come trade restrictions, especially in the case of the formation of protectionist trade blocs. This trend is evident in the aerospace and automobile industries, where every major company has formed alliances with foreign competitors. For instance, Ford Motor Company has formed a joint venture with a local producer in Taiwan to assemble Festivas for sale in that market. An alliance involving Ford, Mazda, and Matsushita Electric of Japan manufactures air-conditioners for Fords and Mazdas sold in Japan. General Motors markets some of its automobiles in Japan through a three-way joint venture involving Suzuki and Nissho Iwai Corporation.¹⁴

Yet, while joint ventures and other cooperative strategies are often considered as "second-best" relative to exporting or the operation of a wholly owned facility, they do provide important benefits. These include, in addition to market entry, the advantage of working with a partner knowledgeable about the local market, as well as the sharing of production costs and risks.

In some circumstances, firms may be able to export duty-free to countries possessing broad tariff policies in exchange for capital investments or for using local contractors or raw materials in the production process.¹⁵ A joint venture between General Motors and a state-owned automobile maker in Poland to manufacture cars domestically will provide a significant inflow of capital, technology, and expertise to the beleaguered Polish car-maker. In return, General Motors will be allowed to import into Poland a portion of its automobiles duty-free.¹⁶

Responding to Investment Barriers

On other occasions, firms face sharp limits to foreign ownership of local enterprises. This type of governmentally imposed barrier has become more popular in a period when formal trade barriers have been reduced substantially. Investment barriers may include formal restrictions on investment, or less formal but often equally powerful tax and regulatory advantages limited to local companies.

Even though mergers and acquisitions are the dominant modes of penetrating European markets, there exists considerable opposition to American takeovers of very large local firms, especially among the member countries of the European Community. To date, there have been few acquisitions by U.S. companies in Europe that amounted to over \$1 billion.¹⁷

In Indonesia, no foreign company can buy a local firm or set up a new one (except in a very few designated areas). As a result, as elsewhere in the Asian rim, international enterprises most often enter into joint ventures with local firms or, in extreme cases, literally give away nominal majority ownership. For these reasons, in Asia and in Eastern Europe, joint ventures and other strategic alliances are the dominant modes used by foreign companies attempting to develop a presence in local markets (see Figure 1). This is particularly true in the case of high-technology industries (see Appendix).

There exists considerable opposition to American takeovers of very large local firms, especially among the member countries of the European Community.

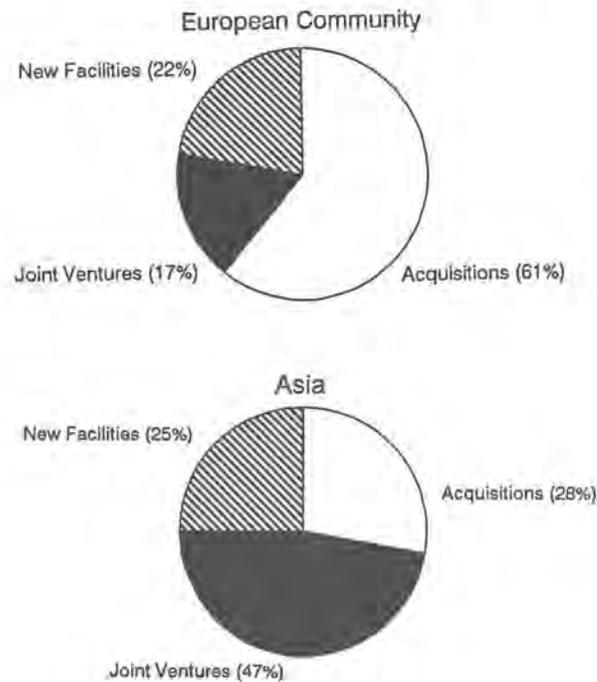
In the case of defense production, many of the cross-border alliances may at their heart be involuntary on the part of the foreign partner. In large measure, producers of advanced weapon systems enter into agreements with foreign firms in order to gain (or avoid losing) governmental customers. During the 1970s and 1980s, European governments demanded a greater role in the development of the military aircraft they were buying from the United States. A counterpart was the Japanese desire to build up its aircraft manufacturing industry as exemplified in the controversial FSX fighter aircraft project involving a joint venture between a Japanese manufacturer and a major U.S. aerospace firm.

These demands for production (and often technology) sharing intensified at a time when the United States government was eager to reduce the development costs of its weapon systems and wished to encourage standardization, especially in NATO weapons. In 1986, Congress reinforced this trend by enacting legislation that encouraged multinational cooperation in weapons development.

Another strategy adopted by foreign governments has been to demand a greater role in the production of aircraft they were purchasing from American companies. Faced with the prospect that several European governments might try to develop an indigenous military fighter to rival the F-16, the General Dynamics Corporation agreed to assign a major production role to domestic

Figure 1

Variations in U.S. Business Responses to Global Markets in 1990



Source: See Appendix, compiled from unpublished data made available by the Conference Board, New York City.

firms in prospective purchaser nations. This role included production of parts for aircraft sold to the U.S. Air Force. Aided by such arrangements, and with the backing of leading Belgian and Dutch aircraft firms, General Dynamics won the contract over strong competition.¹⁸

In some circumstances, a host government may be willing to accept the construction, expansion, or acquisition of a local branch by an American company on the condition that the firm meets a specified performance requirement or provides another concession. Before IBM was allowed to increase its operations in Mexico, the company agreed to set up a development center for semiconductors, to purchase high-technology components from

Mexican companies, and to produce software for Latin America in Mexico.¹⁹

In the case of more standard manufactured goods, other ways around investment barriers include entering into agreements with local firms who will produce the item under licensing arrangements. In some instances, firms that would prefer to export products manufactured in their home countries are forced to agree to license the manufacture to a company in the host country. While Japanese civilian markets are becoming more open to foreign investment (IBM and Texas Instruments own production facilities there), many companies must still rely on licensing and other cooperative contractual relationships between the parent and Japanese firms. For example, U.S. companies, such as Honeywell, RCA, and General Electric, have often been limited to engaging in licensing arrangements in Japan.²⁰

Moreover, Japanese firms have produced, under licensing from American firms, the McDonnell Douglas F-15 fighter aircraft, the Boeing Chinook helicopter, and the Lockheed P-3C aircraft. Similarly, companies in Taiwan have been licensed to manufacture the M-109 howitzer, the FFG-7 class frigates, and several missiles.²¹ At other times, a production-sharing arrangement is required. For example, a government-owned airline may require the manufacturer to buy designated amounts of locally produced parts.

In the case of services, franchising to a domestic enterprise serves a similar purpose to licensing in adjusting to barriers to direct investment. However, governments may insist that the domestic operator be given a majority control over the franchise operations. For instance, South Korea generally discourages franchising unless the local partner is given at least 50 percent ownership. In addition, profits from the franchising business are taxed at 40 percent, and a 10.75 percent withholding tax is levied on royalties and dividends earned by the parent organization. Taiwan maintains similar restrictions but seldom allows franchising agreements to extend beyond five years. Taiwan also taxes dividends and royalties at 35 and 20 percent respectively.²²

Responding to Other Governmental Barriers

In other parts of the world, especially in the less developed nations, public-sector deterrents to business take different forms.

Governments on occasion restrict repatriation of earnings, or foreign businesses fear future expropriation of their assets. Governments may also restrict location, financing, and technology inputs, and require local sourcing of raw materials and rigid technical specifications.²³

*Uncertainty as to future public-sector policies
constitutes a major obstacle to investments
by foreign firms.*

Indirect barriers, such as inadequate patent protection laws, may also impede a firm's ability to market its products successfully in a foreign country. Marsh-McBirney reports that the company has been especially hurt by the weakness of patent protection overseas. In particular, company officials believe that its export business in Europe would double if its patented products were adequately protected there.²⁴ In such circumstances, uncertainty as to future public-sector policies constitutes a major obstacle to investments by foreign firms.

At times, policy shifts occur in the host country. For example, until 1985, Japanese electronics firms generally had been reluctant to make equity investments in China. Japanese exports had met considerable success, assisted by concessionary financing provided by their government. Beijing's tightened control over foreign exchange in 1986, however, resulted in a basic change in the way in which the Japanese companies penetrated the Chinese electronics market. The giants of the industry — Matsushita, Hitachi, Sony, NEC, and Sanyo — all sharply increased their direct investments and joint ventures in the PRC.²⁵

Global enterprises interested in doing business in parts of the world characterized by great business uncertainty often set up affiliate or correspondent relationships with local firms. This minimizes risk and liability — and also profit potentials. Consider the case of Exxon, whose Venezuela operations were nationalized in 1975. Responding to a new political environment in that South American nation, the company has reopened an office in Caracas to pursue proposals to build and operate energy facilities — with local partners under joint-venture agreements.

A combination of much lower wage rates and far less burdensome regulation has encouraged many Hong Kong companies to

relocate to Guangdong and other adjacent parts of mainland China. Hong Kong has begun to enforce several tough anti-pollution laws; excessive industrial discharges into the air or the harbor are punishable by substantial fines. The prospect of unification of Hong Kong and mainland China is, of course, another important but immeasurable factor.

As a result, companies based in Hong Kong have invested approximately ten billion dollars in China and now reportedly control two-thirds of the twenty thousand factories that have been built since 1980 in the adjacent area on the mainland. The movement to the China mainland is very substantial. A decade ago, Hong Kong had 3,200 toy factories. Almost all of such manufacturing now takes place across the border.²⁶

When other barriers have been imposed by governments in the more advanced economies, licensing arrangements can be made with domestic firms in exchange for market entry. These governmental obstacles include local political or industrial pressures, local distribution systems strongly favoring home-produced products, and heavy transportation costs. Enterprises in advanced economies can thus respond to attractive overseas markets without directly penetrating them. Some U.S. workstation manufacturers have established licensing partnerships with Japanese firms desiring to enter the worldwide workstation market in return for access to the lucrative Japanese portion of the important computer market.

Companies that have difficulty introducing products in the home country due to delayed approval or stricter governmental requirements can license their products to firms in other countries in an effort to introduce them to markets more quickly. This practice is common to some U.S. pharmaceutical firms. For example, Vestar and Genentech have on occasion introduced drugs in Europe before they were approved in the United States.²⁷

A more fundamental response to burdensome domestic regulation is occurring in the U.S. petroleum industry. National policy keeps drilling rigs out of the Arctic National Wildlife Refuge, which the industry considers to be the country's best prospect for new oil exploration. A recently enacted energy bill also extends moratoriums on offshore drilling and the new clean-air rules make it more expensive and difficult to refine oil in the United States.

As a result, U.S.-based energy companies have been expanding their overseas operations while cutting back their domestic activities. The number of drilling rigs searching for oil and gas

in the United States has declined from 4,530 at the end of 1981 to 596 in mid-1992. Total outlays for exploration and development in the United States by 30 large oil and gas companies fell 4 percent in 1991. Their investment abroad increased by 27 percent and totaled more than 50 percent higher than in domestic markets.

*Faced with rising government burdens in one nation,
a firm can shift its high value-added activities
to other nations with lower taxes and
less burdensome regulation.*

As recently as 1987, the domestic investment outlays of the major U.S. energy companies exceeded their foreign expenditures. Thus, a major American industry is responding quietly but effectively to onerous domestic regulation by putting its growth overseas.²⁸

In many other instances — especially in the more developed nations — companies face high business taxes and onerous regulatory costs. In some cases, the barriers may be rather informal in nature. When these barriers to business occur in the home country, the enterprise can expand overseas. In more extreme cases, existing business operations are moved to a more favorable policy environment in another country. In the case of informal barriers, such as in nations whose traditions favor established companies over newcomers, the response by the transnational company often is to market through local distributors.

It is helpful under changing political circumstances to do business in several countries. In that event, when faced with rising government burdens in one nation, a firm can shift its high value-added activities to other nations in which it operates, specifically those with lower taxes and less burdensome regulation.

Export restraints are usually imposed by governments attempting to punish another country by applying sanctions against its trade. Compensating shifts often occur in the geographic distribution of goods from various exporting and importing nations. Companies in the target nation may supply or be supplied by firms in other nations, which are not adhering to the sanctions; firms in the sanctioning nation may wind up selling to

or buying from firms that are the former customers of the non-sanctioning countries.

For example, during the 1980 U.S. grain embargo against the Soviet Union, companies in Canada, Australia, Argentina, and the European Community increased their wheat sales to the Soviets. Companies in the United States in turn shifted wheat to customers of these countries. Thus, the main impact of the embargo was to shift the international distribution of wheat sales, with little effect on their total amount.²⁹

It should be emphasized, however, that traditional business reasons are also involved in the choice among the available methods of penetrating foreign markets. Indeed, those business concerns — such as cost and transportation advantages — may often be the dominating influence.

The Feedback on Government Policy

In the years ahead, the combined power of economic incentives and technological change will increasingly have feedback effects on the decisions of voters and government officials as they develop new national (and regional) policies dealing with the global economy. In a basic sense, the mobility of enterprises — of their people, capital, and information — is reducing the power of government. Public-sector decision makers increasingly are being forced to understand that they now have to become internationally competitive in the economic policies they devise. Governmental activities that impose costs without compensating benefits or that reduce wealth substantially in the process of redistributing income undermine the competitive positions of domestic enterprises. The result is either the loss of business to firms located in other nations or the movement of the domestic company's resources and operations to more hospitable locations.

Political scientists and economists have long understood that people vote with their feet. They leave localities, regions, and nations with limited opportunity in favor of those that offer a more attractive future. In this era of computers, telephones, and fax machines, enterprises are far more mobile than that; information — that key resource — can be transferred in a matter of seconds, or less. The fear of losing economic activity to other parts of the world can be expected to reshape future domestic political agendas in fundamental ways.

Of course, not all governmental involvement in international business is of a negative nature. On many occasions, public-sector policies actively encourage foreign companies to invest, to build new facilities or otherwise to participate in the local economy. Such supportive actions include tax abatements, tariff waivers, liberal credit terms, and reductions in burdensome regulation. For instance, as an incentive to invest in Hungary, the Hungarian government offered Ford Motor Company a 10-year freeze on the payment of taxes.³⁰

*In a global economy, governmental barriers
become far from absolute.*

Moreover — and often of transcending importance — business enterprises simultaneously take into account a great variety of traditional business considerations. These range from differences in production and distribution costs to the limits of the firms' own financial and organizational capabilities. In the move toward globalization, individual firms may experience rough sledding and reverse some of their foreign commitments.

The alliance between General Motors and Daewoo of South Korea went sour when Daewoo's desire to expand in local markets conflicted with GM's global objectives.³¹ Greater difficulties have arisen in the transitional economies of Eastern Europe and the republics of the former Soviet Union. Often investors do not know if they have legal title to the items they purchase. As a result, of the 2,000 deals Americans have made in Russia and the other republics, less than 100 are functioning.

In late 1981, Metallgesellschaft AG, the large German metallurgy firm, pulled out of its 60 percent stake in a steel plant in Hungary. The German company said that the Hungarian government partners wanted it to foot a larger portion of the operating costs than its contract provided for. According to Peter Giesler, an official of Metallgesellschaft, "We learned that contracts which were made at the time were not enforceable at another time."

The American firm United Technologies reports a similar experience. In 1991, it signed a contract to sell jet engines to Malev, the Hungarian national airline. The document contained a clause stating that it was legally binding. However, Malev called it merely a "letter of intent" and subsequently announced that it would purchase the engines from General Electric.

Although the American firm won when it sued in a Hungarian court, the case is now on appeal.³²

In more developed markets, DuPont and Holland's Philips ended a cooperative agreement because of different goals. So did Borden, Inc. and Japan's Meiji Milk Products. Earlier, Bull of France, Siemens of Germany, and Philips abandoned their attempt to form a Europe-based computer alliance.³³ Clearly, the interaction of regionalization and globalization will continue to generate winners and losers.

Even if many of the public-sector barriers remain, the private-sector will increasingly learn how to overcome them or even just to live with them. Of course, there are costs involved when businesses respond to governmental barriers to international business. However, in a global economy, these barriers become far from absolute.

Conclusion

The tension between business and government is nothing new. It has traditionally existed between large private enterprises and the rulers of developing countries (see Table 1). This tension between governments generally (both those with developing and those with more advanced economies) and the business firm is being exacerbated by the rapid rate of economic, social, and technological change.

Companies oriented to the global marketplace, in turn, have a variety of response mechanisms to draw upon. These range from exporting to acquiring other firms to licensing products and services, and to entering into strategic alliances with other business firms. As we have seen, those choices are often strongly influenced by governmental policies and practices. These public-sector influences include actions by the nation in which the parent company is located as well as by the country in which the firm is trying to develop a new presence. The governmental actions range from the supportive, such as a tax incentive to invest in a specific region, to overt barriers, notably restrictions on imports and foreign investment.

Fortunately, there is another force involved that ultimately is likely to carry the day — the citizen as consumer. Consumers vote every day of the week — in dollars, yen, Deutsche marks, pounds, francs, and lira. The same protectionist-oriented voters, as consumers, purchase products made everywhere in the world. They give far greater weight in spending their own money to

Table 1
**Tensions Between Developing-Country Goals
 and Business Activities**

Developing Countries	International Private Enterprises
Promote local ownership	Maintain global standards and efficiency
Increase local control	Minimize cost and complexity of delivering technology and capital
Change payment characteristics and reduce duration of contracts	Receive just returns for risks
Minimize source firm's control over use of technology and capital in user nation	Gain assurance regarding property rights over use of private resources
Separate technology from normal private investments	Provide technology as part of long-term production and market development
Remove restrictive business clauses in investment and technology agreements	Maintain ability to affect the use of capital, technology and associated products
Minimize proprietary rights of suppliers	Protect right to profit from private investments
Reduce contract security	Use contracts to create an environment of stability and trust
Encourage transfer of R&D to host country	Maintain control of R&D paid for by company
Develop products suitable for domestic markets	Gain global economies of scale to lower cost of products to consumers

Source: Adapted from the President's Task Force on International Private Enterprise, *The Private Enterprise Guidebook* (Washington, D.C.: Government Printing Office, 1984).

price and quality than country of origin. And they increasingly travel to, and communicate with, people in virtually every land. Consequently, businesses will continue to adopt innovative and effective responses not only to the barriers governments may erect, but also to the potential to turn a profit in a global economy.

Notes

1. Dun & Bradstreet, Comments on the Economy, Vol. 2, No. 4, August/September 1991, p. 2.
2. See Joon H. Suh, 'Voluntary' Export Restraints and Their Effects on Exporters and Consumers: The Case of Footwear Quotas (St. Louis: Washington University, Center for the Study of American Business, 1981).
3. Murray L. Weidenbaum, "Quotas on Japanese Autos Play Up the High Cost of Protectionism," *Christian Science Monitor*, April 20, 1984, p. 13; Robert W. Crandall, "Import Quotas and the Automobile Industry," *Brookings Review*, Summer 1984, pp. 8-16.
4. Thomas M. Gladwin and Ingo Walter, *Multinationals Under Fire: Lessons in the Management of Conflict* (New York: John Wiley & Sons, 1980), p. 504.
5. M. Daniel Rosen, "As Europe Comes Together," *Monsanto Magazine*, July 1992, p. 10.
6. Gladwin and Walter.
7. Amy Borrus with Wendy Zellner and William J. Holstein, "The Stateless Corporation: Forget Multinationals — Today's Giants are Really Leaping Boundaries," *Business Week*, May 14, 1990, p. 99.
8. *Ibid*, pp. 4-5.
9. Sami M. Abbasi and Kenneth W. Hollman, "Making the Most of EC '92: Background, Issues, and Strategies," *Review of Business*, Vol. 11, No. 3, Winter 1989, pp. 10-12.
10. *Directors and Boards*, Spring 1991, p. 59.
11. Cynthia Day Wallace, "Economic Overview," in *Japanese Investment in the U.S.* (Washington, DC: Nitze School of Advanced International Studies, 1990) p. 14.
12. Adam Bryant, "Toyota is Adding Chrysler As an Auto Parts Supplier," *The New York Times*, July 13, 1992, p. C4.
13. Barry Eichengreen, "International Competition in the Products of U.S. Basic Industries," in Martin Feldstein, editor, *The United States in the World Economy* (Chicago: University of Chicago Press, 1988), p. 340.
14. Michael Merger, "Exit Multinationals, Enter Strategic Alliances," *Billton*, June 1990, pp. 17, 18.
15. Gladwin and Walter, p. 266.
16. Stephen Engelberg, "GM Venture to Build Opel Cars in Poland," *The New York Times*, February 29, 1992, p. 17.
17. Heinz Wehrich, "Europe 1992: What the Future May Hold," *Academy of Management Executive*, Vol. 4, No. 2, May 1992, p. 13. The exceptions include Philip Morris' \$3.8 billion purchase of Switzerland's Jacobs Suchard and Ford's acquisition of the U.K. firm Jaguar.
18. Theodore Moran and David Mower, "Aerospace," *Daedalus*, Fall 1991, pp. 140-141.
19. David E. Sanger, "I.B.M. Concessions to Mexico," *The New York Times*, July 25, 1985, p. D5.
20. Gladwin and Walter, p. 476.
21. Gordon Adams, *Arms Exports and the International Arms Industry* (Washington, D.C.: Defense Budget Project, 1991), p. 10.
22. Peng S. Chan and Robert T. Justis, "Franchise Management in East Asia," *Academy of Management Executive*, Vol. 4, No. 2, 1990, p. 83.
23. Gladwin and Walter, p. 264.
24. "Case Study: Marsh-McBirney, Inc.," *Economic Insights*, January/February 1991, p. 8.
25. Denis F. Simon, "China's Evolving Electronics Strategy," in David Lampton and Catherine Keyser, editors, *China's Global Presence* (Washington, DC: American Enterprise Institute, 1988), p. 105.
26. Fred C. Shapiro, "Letter from Hong Kong," *The New Yorker*, June 29, 1992, pp. 79-80.
27. Robert T. Keller and Ravi R. Chinta, "International Technology Transfer: Strategies for Success," *Academy of Management Executive*, Vol. 4, No. 2, 1990, p. 37.
28. Matthew L. Wald, "The Shrinking of the American Oil Industry," *The New York Times*, July 19, 1992, p. 7.
29. *Economic Sanctions* (Washington, DC: U.S. General Accounting Office, 1992), p. 14.
30. Anthony O'Sullivan, "Eastern Europe," *Europe*, No. 299, September 1992, p. 21.
31. Benjamin Gomes-Casseres, "Joint Ventures in the Face of Global Competition," *Sloan Management Review*, Vol. 30, 1989, pp. 17-26; Damon Darlin and Joseph B. White, "GM Venture in Korea Nears End," *Wall Street Journal*, January 6, 1992, p.1 et ff.
32. Ken Kasriel, "Hungary's Troubled Business Ties," *Christian Science Monitor*, July 7, 1992, p. 2.
33. Martin K. Starr, *Global Corporate Alliances and the Competitive Edge* (New York: Quorum Books, 1992), p. 148; Philippe de Woot, *High Technology Europe: Strategic Issues for Global Competitiveness* (Oxford: Basic Blackwell, 1990), p. 119.

U.S. Business Investment Overseas, 1988-1990

This appendix contains detailed data on direct investments by U.S. manufacturing companies in overseas markets during the period 1988-1990, as provided by the Conference Board.¹ The tables which follow indicate the specific types of investments by U.S. manufacturers. The Conference Board collected the data from business publications and announcements of planned U.S. manufacturing operations abroad. The data is limited to firms with combined domestic and foreign sales of \$1 million or more annually; thus, the tables cover medium-to-large-size companies.

The types of manufacturing operations recorded include joint ventures with and acquisitions of foreign companies, as well as expansions of existing production facilities or construction of new plants. Also included is information regarding the country in which the investment is made, the amount, in dollars, of the overseas investment, and the type of product that will be manufactured. The data set was supplemented with information regarding the size of the U.S. parent firm and the specific industry in which the manufacturing operations will take place.

Table A.1 presents a breakdown of investment by type of industry, following the two-digit SIC (Standard Industrial Classification) codes. Chemicals (SIC 28) and electronic and electrical equipment and components (SIC 36 and 38) represent the most important industries in terms of the number of overseas operations in which U.S. firms engaged during the years 1988-1990.

Overall, acquisitions appear to be the preferred method of conducting manufacturing operations abroad, accounting for more than half of the total. However, this pattern does not hold up over all geographic areas. As suggested by Table A.2, acquisitions are usually used in the European Community and in Canada. Joint ventures, on the other hand, are most important in Asia. As demonstrated in the body of this paper, this is likely due to the fact that investment restrictions by Asian rim nations make joint ventures and other strategic alliances the most feasible method of operating in those countries.

¹For more detail, see Harvey S. James, Jr., *Patterns of Economic Globalization: The Case of U.S. Manufacturers, 1988-1990* (St. Louis: Washington University, Center for the Study of American Business, forthcoming).

Tables A.3, A.4, and A.5 give details on the number of firms for the entire sample, the European Community and Asia that utilize acquisitions, joint ventures, and new plants or expansions abroad, respectively, for all manufacturing industries.

Figures A.1, A.2, and A.3 indicate the influence of technology on activities of manufacturing enterprises. High-technology industries are those in which R&D represent a significant percentage of total sales. In the figures presented here, high-technology industries are coded from the following two-digit SIC areas: 28 chemicals, 35 machinery and computers, 36 electronic equipment and components, 37 transportation equipment, and 38 analytical instruments. While joint ventures continue to be the dominant way in which U.S. manufacturers operate in Asia, they are relatively less important in the case of low-technology products. Similarly, while acquisitions are the main way that American manufacturing firms establish an operating presence in Western Europe, joint ventures are relied on most heavily in the case of high technology companies.

In Tables A.6 and A.7, the size of the U.S. firm is presented relative to the geographic area in which the company invests abroad and the type of investment activity the firm engages in. The size of companies is determined by annual domestic and foreign sales in 1991, and is taken from the Lotus Development Corporation CD-ROM data base.² The average firm had combined domestic and foreign sales of \$13.9 billion. The sales of firms ranged from a low of \$1 million to a high of \$119.8 billion. The size of firms for the tables and figures presented here is coded as follows: small firms are companies with annual sales of less than \$100 million; medium-size firms have sales between \$100 million and \$1 billion; medium/large companies have annual sales of \$1-10 billion; large companies have sales of \$10-50 billion; companies with sales exceeding \$50 billion are coded as very large.

Figures A.4 and A.5 depict the pattern of investment activities in Asia and the European Community by the size of the firm. The differences in scale facilitate comparison between Asia and Europe.

²Lotus One Source, Release 3.1, *CD/Corporate: U.S. Public Companies* (Cambridge, MA: Lotus Development Corp., 1991). Annual sales of companies not listed in the CD data base sample were obtained from *Million Dollar Directory: America's Leading Public and Private Companies* (Parsippany, NJ: Dun & Bradstreet, 1992.) Firms with no sales data available were excluded.

Table A.1
 Number of U.S. Manufacturing Investment
 Activities Abroad, by Industry,
 1988-1990

Industry	<u>Type of Investment</u>			Total
	Acqui- sitions	Joint Ven- tures	New plants/ Expan- sions	
Chemicals	52	37	37	126
Electric/ electronic equip.	55	43	22	120
Machinery	53	22	11	86
Transportation equip.	23	25	7	55
Petroleum	4	5	1	10
Metals	21	13	9	43
Wood/paper products	33	9	9	51
Food products	54	12	8	74
Textiles	8	4	2	14
Other manufacturing	<u>51</u>	<u>25</u>	<u>13</u>	<u>89</u>
Total	354	195	119	668

Source: Compiled from unpublished worksheets supplied by the Conference Board.

Table A.2
 Number of U.S. Manufacturing Investment
 Activities, by Area, 1988-1990

Target Area	<u>Type of Investment</u>			Total
	Acqui- sitions	Joint Ven- tures	New plants/ Expan- sions	
European Community	221	63	67	351
Asia	31	76	30	137
Canada	65	5	9	79
Latin America	10	14	10	34
Other Europe	<u>27</u>	<u>37</u>	<u>3</u>	<u>67</u>
Total	354	195	119	668

Source: Same as Table A.1.

Table A.3
 Number of U.S. Firms Making Acquisitions,
 by Industry, 1988-1990

Industry	European Community	Asia	Latin America
Chemicals	27	3	2
Electric/electronic equipment	36	5	2
Machinery	37	4	0
Transportation equipment	17	3	1
Petroleum	2	1	0
Metals	14	0	0
Wood/paper products	21	2	1
Food	31	4	4
Textiles	6	2	0
Other	<u>30</u>	<u>7</u>	<u>0</u>
Total	221	31	10

Source: Same as Table A.1.

Table A.4
 Number of U.S. Firms Engaged in Joint Ventures,
 by Industry, 1988-1990

Industry	European Community	Asia	Latin America
Chemicals	14	13	3
Electric/electronic equipment	14	20	3
Machinery	9	10	0
Transportation equipment	8	9	2
Petroleum	1	2	0
Metals	4	4	2
Wood/paper products	4	0	0
Food products	3	6	0
Textiles	1	1	1
Other manufacturing	<u>5</u>	<u>11</u>	<u>3</u>
Total	63	76	14

Source: Same as Table A.1

Table A.5
Number of Firms Building New Plants
or Expanding Existing Facilities,
by Industry, 1988-1990

	European Community	Asia	Latin America
Chemicals	21	9	3
Electric/electronic equipment	13	7	2
Machinery	8	1	2
Transportation equipment	7	0	0
Petroleum	1	0	0
Metals	5	1	0
Wood/paper products	2	3	1
Food products	3	3	0
Textiles	2	0	0
Other manufacturing	<u>5</u>	<u>6</u>	<u>2</u>
Total	67	30	10

Source: Same as Table A.1

Table A.6
U.S. Manufacturing Investment Abroad,
by Size of Firm, Geographic Area, 1988-1990

Size	European Community		Asia		Latin America		All Others		Total No.
	No.	%	No.	%	No.	%	No.	%	
Small	17	40.5	5	11.9	3	7.1	17	40.5	42
Medium	63	54.3	18	15.5	5	4.3	30	25.9	116
Medium/Large	162	54.6	55	18.5	15	5.1	65	21.9	297
Large	70	49.7	43	30.5	6	4.3	22	15.6	141
Very Large	<u>31</u>	<u>55.4</u>	<u>13</u>	<u>23.1</u>	<u>5</u>	<u>8.9</u>	<u>7</u>	<u>12.5</u>	<u>56</u>
Total	343	52.6	134	20.6	34	5.2	141	21.6	652

Source: Same as Table A.1

Table A.7
Types of U.S. Manufacturing Investment Abroad,
by Size of Firm and Type of Investment, 1988-1990

Size	Acquisitions		Joint Ventures		New plants/ Expansions		Total No.
	No.	%	No.	%	No.	%	
Small	22	52.4	15	35.7	5	11.9	42
Medium	77	66.4	27	23.3	12	10.3	116
Medium/Large	172	57.9	75	25.3	50	16.8	297
Large	55	39.0	53	37.6	33	23.4	141
Very Large	<u>15</u>	<u>26.8</u>	<u>24</u>	<u>42.9</u>	<u>17</u>	<u>30.4</u>	<u>56</u>
Total	341	52.3	194	29.8	117	17.9	652

Source: Same as Table A.1

Figure A.1

Proportion of U.S. Manufacturing Investment Abroad in Acquisitions, by Area, 1988-1990

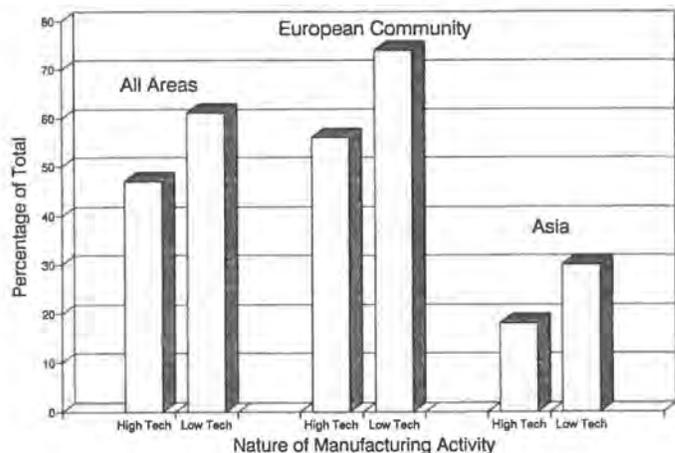
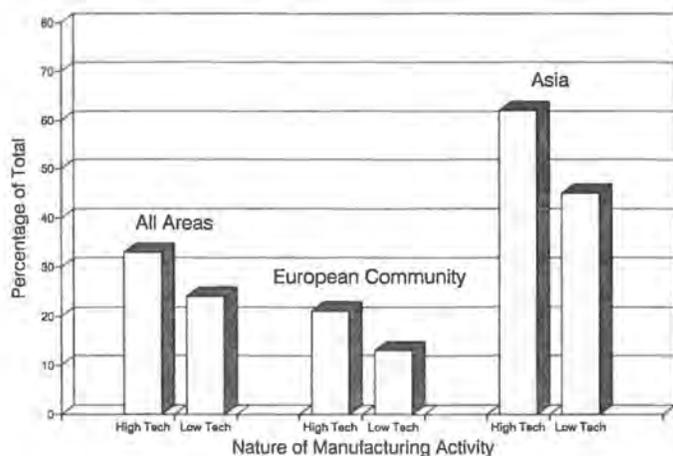


Figure A.2

Proportion of U.S. Investment in Joint Ventures, by Area, 1988-1990



Source: Both figures same as Table A.1.

Figure A.3

Proportion of U.S. Investment in New/Expanded Facilities, by Area, 1988-1990

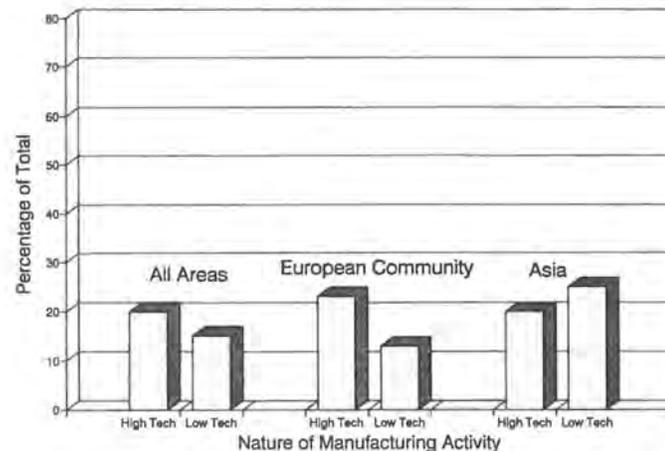
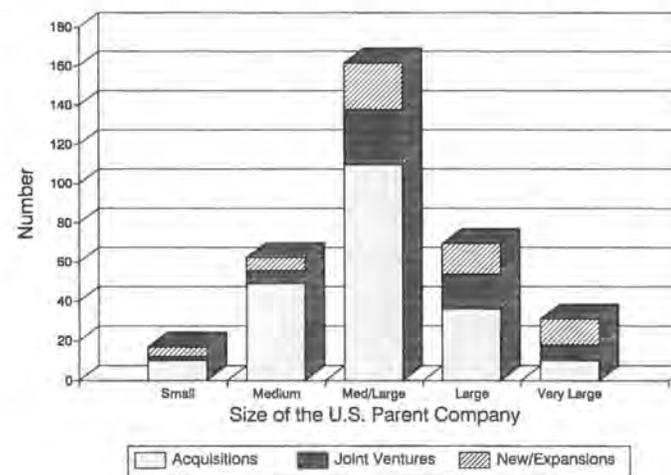


Figure A.4

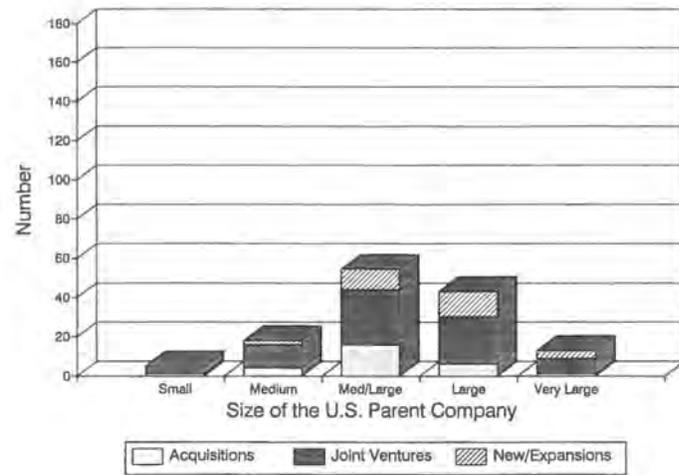
U.S. Manufacturing Investment in the European Community, by Size of Firm, 1988-1990



Source: Both figures same as Table A.1.

Figure A.5

**U.S. Manufacturing Investment in Asia,
by Size of Firm, 1988-1990**



Source: Same as Table A.1.