Working Paper

NATIONAL POLICIES AND MULTINATIONAL CORPORATIONS: IMPLICATIONS FOR RUSSIA

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Foreword

This paper was prepared while the author was a participant of the Young Summer Scientists Program (YSSP) and member of the Economic Transition and Integration (ETI) Project, at the International Institute for Applied Systems Analysis (IIASA) in Laxenburg during the summer of 1992.

This essay is dedicated to the issues related to the relationship between national and transnational business. The paper does not concentrate on the formal aspects of the issues but assumes as a basis the tendency towards globalization of industrial development and the related achievements and influence of multinational corporations (MNC) and national enterprises. Russian government officials and local businessmen will increasingly face the need to understand MNC strategies and motives but also the means to achieve their own goals. All in all, the elaboration of a national industrial policy carefully considering global business developments is of prime importance for the future of the Russian nation. The activities of MNCs can significantly influence economy, society, technology, and politics in the compelling and sensitive transition to a market economy in Russia.

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Contents

1 Introduction **1**

2 The Politics Around MNCs **2**
2.1 The postwar liberal conception of economic order 2
2.2 The powers of a host country 3
2.3 Economic domination and independence 5

3 Dynamic Processes Inside and Outside Multinational Corporations **7**
3.1 Why a firm spreads abroad 7
3.2 How a MNC grows 8
3.3 From integration to globalization 9

4 National and Multinational Business Strategy **10**
4.1 The definition of key multinational business strategies 10
4.2 Main determinants of a MNC's strategic choice 11
4.3 Global competition in industries 13
4.4 Government-controlled industries 15
4.5 Mixed-structure industries: difficult consent between the economic and political priorities 17

5 Conclusions for Russia **19**
5.1 Development of competition as a key problem of economic reform 19
5.2 National industrial policy and multinational corporations 21

APPENDIX **26**

NATIONAL POLICIES AND MULTINATIONAL CORPORATIONS: IMPLICATIONS FOR RUSSIA

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1 Introduction

As recently as two or three years ago, many policy-makers anticipated (and some of them still do today) that the market itself would automatically remedy the situation of economic stagnation in Eastern Block countries, adjust the restructuring of the economy to more appropriate pattern, reorient industry to meet the needs of citizens, help in the rapid development of more advanced enterprises, and force the laggards to reorganize. But as it turns out, it is not so simple. Markets are both destructive and creative. There are losers and winners. If the market will actually be more destructive, then the Eastern Europeans will be losers. In East Germany, since monetary union, industrial production has fallen by over 40%. At the time of monetary union, it was thought that about one third of East German industrial enterprises would have to close down. Now, there is skepticism as to whether any enterprises will survive (Kaldor, 1991, p. 366).

The essential problem of the East European economies and Russia is industrial and technological backwardness. But it is not backwardness in the same sense as in third world countries, because the former possess a great number of skilled workers, scientists, and engineers. Nevertheless, industrial and technological resources are wasted due to an absence of normal economic rules which are necessary for establishing a rationally organized economy. It seems to be a foregone conclusion that previously centrally planned nations must join the world of market economics if their post-communist industries are to survive. However, the practical elements of change are the key factors available to governments to influence the integration process of the national economy in international production and innovation processes. The factors include measures that can help countries to preserve domestic high-technology enterprises in the absence of the central distribution system and that might assist technological innovations to diffuse, avoiding one-sided dependency on foreign multinational corporations (MNCs) and other economic subjects.

The multinational corporation is a key institute of our contemporary world economic community on the one hand, and, on the other, it is in the heart of contradictions between individual national interests and participation in the global division of labor. This paper attempts to analyze this issue from different standpoints. To start, there is a description of the general political issues that have arisen around MNCs. The second part of this paper is devoted to the theories explaining the development of multinational production and distributional networks; beginning from theories which interpret this development as an internal process of growth of an organization to ones which consider MNCs as a spin off of the contemporary trend to globalization. The third part is dedicated to an analysis of MNCs' strategical behavior and the related national industrial policies. The final part of this study attempts to select and explain the main features most suitable for Russia's industrial policy during the current transition to a market economy.

2 The Politics Around MNCs

2.1 The postwar liberal conception of economic order

In any book about multinational corporations (MNC), the first chapter is usually dedicated to the enormous growth of their participation in world production and trade. Here, too, are some striking examples that demonstrate these phenomena.

Indeed, General Motors' 1985 sales were larger than the gross domestic product (GDP) of one hundred and four countries (not counting the Soviet Union and Eastern Europe) and well ahead of Austria, Belgium, Denmark, Norway, and Switzerland (World Bank, 1987, p. 206–207 and United Nations, 1988, p. 335–340). Although the subsidies provided by the Japanese government to support the successful ascension to leadership in microelectronics (estimated between $300 and $500 million during 1975 to 1979) were large in absolute terms, IBM's research and development budget is as much as $1200 million per year (Doz, 1987, p. 127–129). This said, let us turn to the political background of MNCs' rapid expansion.

It appears quite possible to link the spreading of MNCs across the globe with the predominance of the liberal approach to international economic relations. Furthermore, France and Japan, the two countries whose national policies reveal the greatest opposition to multinational corporations, are countries in which liberalism is not part of the national philosophical tradition.

Compared with the control of money and trade, the international control of multinational enterprises has been extremely limited. The need for monetary and trade regulations became clear as a result of the world economic crisis in the 1930s, which was a crucial force behind the establishment of postwar management mechanisms. Regarding global investment management, however, no such international crisis and no consensus have arisen in the West. Moreover, the management of international investment had not been a part of the U.S. scheme for a new postwar economic order.

Like any philosophical conceptions of regulations concerning the establishment of social-economic life, the liberal conception represents the interests of definite forces and is not to be considered as an irrefutable progressive idea. Its predominance in international economic relations depends on the type of truly predominant forces in the world economy at present.

Ironically, in response to strong pressure from U.S. business groups, the U.S. delegation at Geneva proposed a draft article on foreign investment in 1947. The article, intended to codify the prevailing Western liberal attitude toward foreign investment and the rights of capital-exporting countries, provided for protection against nationalization and discrimination. However, during the negotiations the under-developed countries, led by Latin American states, were able to alter its character: the proposed article eventually protected capital importers, not capital exporters. Provisions of the Havana Charter allowed capital-importing countries to establish national requirements for the ownership of existing and future foreign investments and to determine the conditions for further investments. The inclusion of the investment provisions was a main reason for the opposition of U.S. business to the Havana Charter and for its eventual failure.

In spite of the fact that the policy of developing countries gained the upper hand in the negotiation process, the economic power was with U.S. business at that time, effectively determining the world economic order. This once again corroborates that an agreement is only effective if it genuinely reflects the existing balance of powers.

2.2 The powers of a host country

The cluster of host countries is divided into developed host countries and developing host countries. Although the most part of foreign direct investment (FDI) flows from and correspondingly returns back to OECD countries (refer to Tables 1 and 2 in the Appendix), the history of relations between MNCs and developing countries has proven to be more unpredictable.

After long years when governments of Third World countries remained silent about multinational corporations' behavior in their countries, they took the lead in publicly opposing MNCs in the 1960s and, especially, in the 1970s. These years were marked by waves of nationalization and new laws and regulations designed to strengthen governmental control and to increase the host country's share of the economic rewards from foreign investment. Multinational corporations have also used their power in the politics of the home state to obtain foreign policies favorable to corporate interests. For example, they have helped to conceive specific legislation, such as the Hickenlooper amendment, which enables the U.S. government to cut-off aid to any country nationalizing U.S. investment without compensation; the Gonzalez amendment, which requires the United States to vote against any multilaterial bank loan to a nationalizing country; the trade legislation which withdraws General System of Preference (GSP) tariff benefits from any country that expropriates U.S. companies without compensation; and the special institutes as, for example, Overseas Private Investment Corporation. Finally, this struggle of legislation led U.S. business (as the greatest investor in the world) to elaborate international legislation expecting to deter, through an international agreement, congressional legislation and to internationalize any constraints placed on a U.S. firm.

In the 1970s, these various forces of change resulted in attempts to regulate multinational corporations by the rules of New International Economic Order (NIEO). In 1974, the United Nations (UN) made two major statements on organizing the NIEO: the declaration of the Establishment of the New International Economic Order and the Charter of Economic Rights and Duties of States. Both of these documents asserted the full sovereignty of each nation over its natural resources and all economic activities including the right of nationalization. The Declaration of the Establishment of the NIEO made no reference to any compensation, and the Charter simply said that any compensation should be "appropriate." Also, the UN established a Center on Transnational Corporations, which gathers and generates information on multinational corporations, and also the Intergovernmental Commission on Transnational Corporations, which acts as a forum for considering issues related to MNCs, for conducting inquires, and for supervising the Center. But the attempt to draw up an international code of conduct has proven impossible. As usual, the international legislation reflects the existing balance of world powers. Really successful efforts to control multinational corporations came from the national level and, sometimes, from the regional level.

The ability of government to control MNCs is shaped by the availability of the skilled persons necessary to draft and enforce laws and to negotiate agreements to regulate foreign investment. One reason for the shift in power from the multinationals to the host government was their significant expertise in monitoring and regulating foreign investments. They trained cadres in the legal, financial and business skills necessary to regulate foreign subsidiaries. This movement up the "learning curve" made it possible for a host government to develop the laws and bureaucratic structures for managing multinational corporations (Moran, 1974, p. 164).

The second reason was that by the 1970s host countries developed a weakness for investors who already made a significant and successful investment in their country rather than with potential investors. The host countries then had jurisdiction over a valuable multinational asset and could subsequently reverse their former permissive policies attracting investment.

The third reason contributing to the shift in power was the increasing competition for investment opportunities in the Third World. The changes in the economic and political alignment of forces between developed countries resulted in substituting investment flow from one traditionally dominant Northern home country (often it was a mother country in the past) to another in the process of choosing foreign investors. Thus, for example, Japanese multinationals have emerged as an alternative to U.S. firms in Latin America, and U.S. companies have in turn emerged as an alternative to French firms in Africa (UNCTC, 1983, p. 18–19).

Some experts consider that this shift from foreign investor to host government can clearly be seen in the case of raw materials, such as copper and oil (Spero, 1990, p. 247). It is less clear in the case of manufacturing because it is more difficult for developing countries to control global manufacturing firms with worldwide production and marketing and local subsidiaries remain dependent on the parent company for supplies, capital technology, and markets. As a consequence, U.S. business, as the world's largest investor, finally undertook to elaborate international legislation expected to deter congressional and local legislation and internationalize any constraints placed on U.S. firms.

Throughout the 1980s, the Third World countries strategy for control and confrontation shifted toward more pragmatic policies regarding the activities of multinational corporations. There were numerous reasons for such an alternation. Depressed economic conditions and low rates of return in most developing countries during this decade were an important factor in the decline in investment flows. Table 6 in the Appendix shows that rates of return on U.S. FDI in Latin America fell from 18.8% in 1980 to 2.4 in 1983 before again rising to 10.8% in 1985. Rates of return on U.S. investment in other developing countries fell from 41.3% in 1980 to 18.6% in 1985. These unfavorable conditions for FDI in conjunction with the debt crisis in many developing countries were simultaneous with rapid growth, rising rates of return, and few restrictions on foreign investment in many developed countries. Also, policies of developed countries were followed by international institutions as, for example, the World Bank and such legislation as the U.S. Trade and Tariff Act of 1984 were directed to improve access for FDI. In the 1980s, many developing countries shifted, in general, from state-led investment to private-sector investment strategies. The clearest manifestation of this new approach were the privatization policies of several developing countries: they divested a number of state-owned companies to the private sector.

These various forces converged in more liberal policies towards foreign direct investment. The new liberalism did not reverse established restrictive polices. Countries continued to control the entry and operations of foreign investors; most laws, regulations, and institutions put in place to control foreign investment remained; while countries open up some sectors, such as those that exported or involved high technology, they maintained tightly closed policies in others (for example, the service sector). Multinational corporations gradually came to be seen less as a threat and rather as a potential opportunity for promoting growth and development.

The regulation of MNCs has never been such a highly politiziced and controversial issue in the Western system as it has in the Third World. One factor shaped generally positive perceptions of multinational corporations; namely, the dominant liberal philosophy. Other reasons are these: the role of large corporations is not seen as dangerous for an existing national economy where domestic corporations play significant roles; although MNCs control sensitive sectors, they do not usually loom too large in the national economy of developed nations; and, there is also a strong relationship between the multinationals and governments of the developed countries.

The ability to control multinational corporations' behavior is crucial to management because it involves activities that affect national economic performance and national control, such as taxation, labor policy, capital movements, and competition policy. Indeed, governments in the developed countries closely regulate the operations of those firms—both national and multinational—operating within their borders. However, with some exceptions, the developed countries have not imposed special or differential regulation on the operation of multinational corporations. Undoubtedly, MNCs can influence economic performance and national economic management in Western countries, but they cannot undermine the authority of these powerful, sophisticated governments. Western governments possess not only the expertise—lawyers, accountants, economists, business experts—to regulate MNCs but also the confidence that they can devise means for control.

2.3 Economic domination and independence

Most of the negative views on multinationals are centered on fears that they might erode the national control of the economy. Interestingly, the intangible fear of loss of decision making is not related to the level of foreign investment. Canadians, who have a vast amount of foreign investment, are no more concerned than are the English or French, who have much less. The fear of lost control seems to be related more to different national expectations regarding the need for independence than the actual threat to that independence (see Peninou et al., pp. 59, 1977 and Fayerweather, 1972, pp. 472, for more discussion).

After the collapse of military "socialism" in Eastern Europe and the Soviet Union, the problem of national independence expressed itself in the problem of correlation between economic powers and scientific-technical potentials of different nations. These correlations determine the ability of a national economy to engage in the world economic system (WES). Undoubtedly, MNCs are important instruments for joining economies in one common interdependent economic mechanism. The success of a country's entrance in the WES depends on whether it takes the role of home or host country.

Canada, for example, has traditionally had diverse and high levels of foreign investment. It was the most extreme case in which a chiefly host country was a developed country. The former prime minister of Canada, Pierre Trudeau, explained Canada's position as follows:

> "I don't worry over something which is somewhat inevitable, and I think the problem of economic domination is somewhat inevitable, not only of the United States over Canada but perhaps over countries of Europe as well... These are facts of life, and they don't worry me. I would want to make sure that this economic presence does not result as I say in a real weaking of our national identity. I use that general expression too. The way in which I do that is to try and balance the benefits against the disadvantages. It is obvious if we keep our capital and keep our technology, we won't be able to develop our resources and we would have to cut up our standard of consumptions in order to generate the savings to invest ourselves and so on... Each country wants to keep its identity or its sovereignty, to speak in legal terms. It has to instantly make assessments, and when we make assessments it is to try and select those areas which are important for our independence, for our identity."(Spero, 1990, p. 124).

Japan gives a striking example of successful home country policy. For decades, economic policy encouraged growth of "national champions"—large corporations, capable of competing globally with U.S. and West European Corporations in high-technology sectors. At the same time, Japan restricted foreign direct investments. It was trying to procure the benefits of multinational corporations by purchasing advanced technology through licensing agreements instead of acquiring technology through foreign control. As a result, foreign investment in Japan has been quite low (see Tables 3 & 4 in the Appendix).

The transition to more liberal Foreign Exchange and Foreign Trade Control Laws in 1980 from their limiting scope previously in 1950, took place only after strengthening the position of Japanese MNCs in Western industrialized economies. There was also an increasing need to have legislation more compatible with that in such prominent host countries as the United States and European countries.

Interdependency of contemporary scientific and technological knowledge gives host countries the technical impulse and opportunity to eventually become home countries for new industrial giants. On the other hand, under the pressure of the increasing expense incurred to retain a lead position in the world market, the traditional investor countries attract FDI for restructuring and technology re-equipment in their own economies.

There is now a change from quantity to quality values of MNCs' contributions in a national economy. For example, the fear of losing control over sensitive industries is particularly acute. Many nations, including the United States, have always been concerned about foreign ownership in such sectors as communications, transportation, and finance. Increasingly, public officials felt that industries with a large influence on the economy, such as automotive and petroleum industries, or those in the vanguard of scientific and technological development, such as computers and electronics, should remain under national control.

Governments behave themselves like multinationals choosing the best partners for "strategic alliance." In spite of the fact that laws must be equivalent for everyone, when in 1987 the Japanese company Fujitsu Ltd. tried to acquire an 80% share in the American Fairchild Semiconductor Corporation, (a larger supplier of computer chips for the U.S. military), various U.S. government officials argued strongly that the sale ought to be blocked on national security grounds. Ironically, Fujitsu was proposing to buy the 80% share that already belonged to another foreign firm, the French company Schlumberger Ltd. (Spero, 1990, p. 188). Apparently the concern of the U.S. government was not simply the foreign buyers, but the presence of the Japanese in particular, with whom U.S. semiconductor competition has been fierce.

It is clear that economic policy of countries, especially developed ones, has often been in the interest of their powerful multinational corporations. One cannot but admit that: "The global corporation is not the instrument to bring about economic redistribution...The global enterprise may spread wealth geographically, but it concentrates it politically and socially"(Barnet and Muller, 1974, p. 379).

3 Dynamic Processes Inside and Outside Multinational Corporations

Many of theoretical conceptions exist concerning both the development of MNCs and worldwide evolution in the light of MNCs' activities. In this section, I briefly describe the theories which reflect the main ideas about multinational companies and reinforce the final aim of this article—the definition of the most optimal approaches of Russian policy toward MNCs. This is one of the key factors necessary for the integration of Russia into the global economic system.

3.1 Why a firm spreads abroad

Specialists investigating the theory of MNCs have determined that: foreign direct investment follows the foreign markets. If a firm's market increases the firm grows, if a firm stops growing it dies.

The most widely recognized dynamic model of the evolution of international industry is the "product life cycle" concept devoted by R. Vernon (1966, pp. 190). It postulates that demand for a given product moves from an innovating country to other countries over time as they develop, and that the location of manufacturing follows the move of demand with some lag. As the product matures, not high technology but lower manufacturing costs (resulting in lower prices and greater demand) become the critical competitive variable and process innovation subsequently prevails over product innovation. Higher demand growth and lower manufacturing costs in the imitating countries allows them to capture the competitive advantage from the innovating country. Therefore, countries move from an early position of exporter to that of importer. This product life cycle model has been widely used to explain the internationalization of different industries, particularly electronics.

As demand for a product moves from country to country, the innovating firm first satisfies such demand from its domestic plants via export. Threats of entry by competitors, trade barriers and national demands for local production, the concern to avoid the cost of distant shipments, or the opportunity to produce at a lower cost, induce firms to commence production in the importing countries. But why does the innovative firm initiate production locally by itself rather than license a local firm?

The internalization theory of multinational activity explains why sole ownership has been the preferred scheme from the enterprise's point of view (Williamson, 1985). Foreign subsidiaries owning unique intangible assets provided by their mother company could hope to bear local competition. By new product and manufacturing process technology, marketing skills for product differentiation, scanning the world for raw materials supplies and potential export markets—at a much lower cost of information than national companies—MNCs could further their advantages. Professional management and standardized administrative procedures also allowed them, at least in theory, to maximize operational efficiency and minimize administrative costs. Since most of the intangible assets is a "public good" (i.e., it is impossible to exclude anyone, even competing firms, from profiting from it once it becomes generally known), companies cannot afford to use open market practices such as exporting or licensing if they wish to profit from developing this knowledge. As a result, the company "internalized" the market by setting up a wholly owned foreign subsidiary that can ensure maximum control over the use of that asset.

It was a paradox that the networks of MNCs were actually spun by the imperfections of the markets. For example, Casson and Buckley's theory is based on three simple postulates (1976, p. 33):

(a) firms maximize profit in a world of imperfect markets;

(b) there is an incentive to bypass these markets by creating internal markets, this involves bringing under common ownership and control the activities which are linked by the market;

(c) internalization of markets across national boundaries generates MNCs.

Over time the markets became less imperfect, and the alternatives to the MNC developed. Joint ventures and licensing are other structuring options available to multinationals. In certain countries, they are the only avenues available due to the restrictive investment policies of host countries. Another option that has become more common recently in certain industries is the strategic alliance. Strategic alliances are partnerships between separate, sometimes competing, companies from different countries. The companies are drawn together because each needs the complementary technology, skills, or facilities of the other. Nonetheless, the scope of the relationship is strictly defined, leaving the companies free to compete outside the relationship. The catalyst for these arrangements has been the rapidity of technological change and the skyrocketing costs of development, especially in high-technology sectors.

3.2 How a MNC grows

Now consider the multinational company not in light of the "market paradigm," but rather regarding the "paradigm of organizational structure."

In general, the theory of organization explains the growth of multinationals as the consistent evolution of a mother company's organizational structure connected with increasing the volume of its activity. The whole process of an enterprise's evolution from small firm to multinational corporation can be subdivided into three stages. According to this concept, the firm first passes through these stages in the domestic market and then in the world market. Each phase corresponds with the creation of the organizational structure. The evolution of structures expresses the dynamics of the firm's growth and development and of its business strategy. Transition from one phase to the next is an adaptive reaction of the company to the change of the operative demands.

Stopford and Wells (1972) describe the organizational structure of a company as a scheme of organizational and administrative management. Their opinion is that the success of the company and its evolution from a lower to a higher phase is defined by skills and abilities of the managers because they elaborate the firm's strategy and ensure realization of adopted decisions. Therefore, the key for transforming a national company into a multinational is the availability of experienced superior managers.

The first phase is defined as: The firm controlled by one person. There are some functional divisions, and chiefs of all departments are subordinate to this one superior manager.

The second phase: The hierarchic structure of the firm becomes more complicated, for example, functional divisions divide to new subdivisions and sections but the main principle of organizational structure does not change. As a rule growth of the firm is due to vertical integration. This structure is very stable in industries where the rate of technological changes is not very high.

The third phase: The organization of one department becomes a copy of the organization of all the firm in the second phase. Every department is regarded as a profit center and can produce its own type of production. The structure implies existence of different sections and controlling groups in the direction, while the superior manager works on strategic questions and not on everyday problems. This structure gives the opportunity to increase or decrease the number of diverse production centers without influencing the other centers' operational processes.

Very often, first subsidiaries have only financial connections with the mother company during the initial period of foreign production activity (first phase of a firm's growth in the common world market). But subsidiaries' autonomy have only temporary character. With the maturing of the firm as a multinational company, subsidiaries become more and more aware of the influence of the mother company's global strategies (second phase). An analysis of the development of 170 firms during 1900–1970 showed that more than 60% of the subsidiaries refused autonomy before their mother firm created its fifth foreign subsidiary (Stopford and Wells, 1972). By 1966, none of the examined 170 firms had autonomous subsidiaries. The fully maturing MNC pursues worldwide policy by its foreign subsidiaries, while each subsidiary can additionally have its own regional or even world strategy.

3.3 From integration to globalization

A "new human history" in globalization of world demand has evolved. "Today, the whole world has one common demand schedule, one common set of economic values and preferences. The whole world, in other words, has become one economy in its expectations, in its responses and in its behavior" (Drucker, 1969). The only, truly international economic institute of this world economy is the multinational corporation.

Many experts see the mature corporation as the main and primary factor in creating the new technocratic society. "The notable feature of the modern corporation and thus of the planning systems is the uniformity of its cultural impact, regardless of its national origin. Its hotels, automobiles, service stations, airlines are much alike not because they are american but all are the products of great organizations" (Galbraith, 1973, p. 172). Furthermore, according to Galbraith, the market yields its power to the new system, managed by the technostructure. The firm is not subordinate to the market. Thus, the neoclassical model has become a chimera. Large corporations (together with governments and unions) are the social institute shaping the new economy.

The World Oral Examination "Europrospective" (April 1987, Paris) concluded that the key factor in forming new social and industrial structure is the emergence of new technologies. More than a thousand participants of the "Europrospective" directed attention to the practical aspects of world globalization in the 1980s: the new "global" firms have emerged, the scale of the common technical, financial and business cooperation has increased. The boundaries among technologies and branches of activity have been effaced. The new flexible production systems, new materials, and biotechnology raised a question about traditional industrial structure. The common strategies, like, for example, economies of scale, lost their attractiveness based on increasing the volume of production: inflexible industrial structure and immutability of consumers' demands became inviable.

The new strategies use technological knowledge in many diversified activities in different business fields. The connections between pure science and applied research were strengthening in some fields of knowledge. The transition from fundamental investigations to concrete production tasks became quite direct in high-technology industries. Interconnectiblity and compatibility have become more and more critical. Present and future profit depends on the quality of demand; for example, on the skills of users no less than on the skills of the producers. The globalization of information markets changes the forms of concentration and pluralism in the interfirm relationship. The most obvious shift to globalization can be seen in the financial sphere of economic activity.

Specialists considered that the majority of the production companies could gain from the international competitiveness of their production only by cooperating in alliances. Contemporary competitiveness presupposes the development of a world scale production system, ownership of key technology, the operative renewal of the whole assortment of production, access to the global distribution networks in order to use economies of scale, and to advance on the competitors in their home markets.

The evidence appears to indicate that multinational corporations may be far ahead of the rest of the world in these extraordinary claims on the future.

4 National and Multinational Business Strategy

4.1 The definition of key multinational business strategies

Vernon (1966) wrote that the term "multinational corporation" is not absolutely correct, because only common management strategy unites companies of different countries into a single whole. According to Doz (1987), multinational integration and national responsiveness are principle choices which express a clear strategy. Some companies, however, try to avoid developing one of these marginally clear strategies but attempt to combine elements of both; the strategies of such companies can be labeled as multifocal (Doz, 1987, p. 12).

Whether one strategy or another is more or less attractive to the firm is a function of underlying economic and technological characteristics of the industry in which it acts, of the extent and form of government intervention in that industry, and of the competitive posture of the firm. A choice in principal has to be embodied in a complex industrial and managerial structure so that the daily choices within the organization correspond with the chosen strategic orientation.

Multinational integration is defined as the specialization of plants across borders into an integrated multinational production/distribution network. Instead of manufacturing products to satisfy the needs of each national market, the MNC produces in each country only part of a common product range, or implements only some stages of a product's manufacturing process. Therefore, integration strategies result in centralized management, since key decisions affecting operations in one country also affect those in another country directly. Subsidiaries' managers obviously provide input into the major decisions affecting their subsidiaries, but the decisions are not their own.

Contrary to the strategy of integration, subsidiaries of nationally responsive MNCs behave as if they were national companies. Subsidiaries are free to respond to host country's demands and MNC headquarters seldom intervene in their local manager's decisions. Typically, subsidiaries manufacture a relatively complete product range in each country so that intersubsidiary trade is not significant. A nationally responsive MNC does not compete independently in each national market, but rather coordinates actions of its subsidiaries to maximize the common competitive impact.

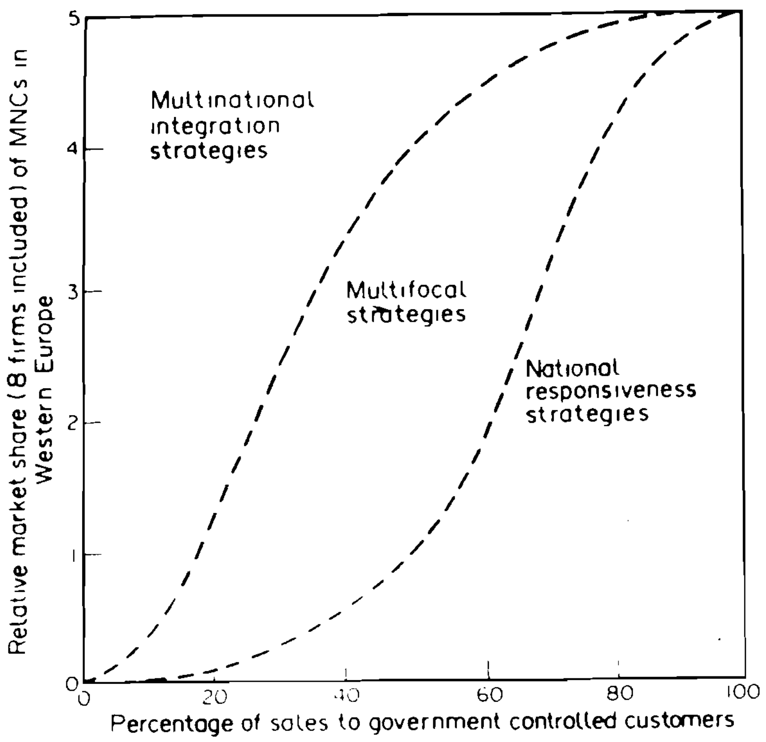
The management of a multifocal firm strategy pursues both strategies. The multifocal strategy provides the flexibility needed for accordance of the firm with the more powerful factors in the environment in a more opportunistic way. Thus, this strategy creates an ambiguous form of management. For understanding how numerous and diverse decisions will be made it is necessary to know what questions are within the scope of local managers' responsibilies and which are the responsibility of top managers. Ultimately though, the conditions of this distribution of duties are set by top management.

4.2 Main determinants of a MNC's strategic choice

Industrial, economic, and technological characteristics make multinational integration, national responsiveness, or multifocal strategies more or less attractive to multinational companies. The nature of demand and the cost structure in an industry are the major determinants of the relative importance of various sources of competitive advantage and, therefore, in the choice of one or another strategy in managing an international business. Integrated and nonintegrated multinationals capture different market segments even in one and the same industry; integrated ones provide low cost of production through their efficient production systems, while nonintegrated ones show superior adaptive flexibility.

A mix of privileged access to these markets, government-funded research programs, assistance in export, and other forms of subsidies are often used to involve MNCs in cooperation with governments. Host governments are not indifferent to the choice of strategy by multinational companies. Government officials prefer control, but can they strive for control at the expense of the part of the state treasury and jobs. MNCs executives face the same dilemma but from the opposite side: they prefer integration, but should integration be pursued when it results in higher tensions with their host governments? If a firm expects that integration strategy can facilitate higher efficiency and returns than could be achieved with national responsiveness policy, it will choose the integration option. In such cases, governments usually seek to share some of the benefits of integration with MNCs. The relationship that develops between an integrated MNC and a host country may be seen as one where the MNC incurs some cost of

Figure 1: Customers, market shares and multinational strategies: a hypothetical relationship.



Source: Doz, (1987), p. 54.

citizenship in exchange for the host government's continued license to the MNC to maintain its integration.

The most obvious cost of citizenship would be differential taxes. Yet most countries do not discriminate between national and foreign investments except by taxing repatriations of dividends and, in some cases, payments of royalties by foreign subsidiaries and import tariffs. Normally, costs of citizenship are also incurred through intangible asset transfers.

The most likely type of strategy an MNC can follow in a business is a function of (a) the extent of government control over markets for that business and (b) the relative market share of the MNC in that business within a given free trade area (Doz, 1987). These relationships are summarized in Figure 1.

The prerequisites are the following (Doz, 1987):

1. Where trade-offs are clear, industry structures are simple. Where economic characteristics drive towards integration and government control over the markets is not extensive, global industries develop. Where national control is a priority, separate industries survive, usually at high opportunity costs.

2. The more the overall market share of a MNC in a free-trade area is exposed to international competition, the more likely the MNC is to follow an integration strategy.

3. Facing the competitive pressure from both large integrated MNCs within a region and low cost importers from outside the region, smaller MNCs and national firms will attempt to

differentiate their products and services to escape direct competition. When no economic basis clearly exists for strategic segmentation of the business, such companies will try to enlist host government support to create artificial differentiation, usually in the form of non-tariff barriers to trade (domestic preference) or policies discriminating between firms (e.g., research subsidies, public purchasing preferences, export assistance, etc.). Alliances among smaller firms of different countries, with complementary skills and market access, are likely to multiply.

4. In industries characterized by a moderate level of government control over markets various types of firms are likely to co-exist.

Doz selected different industries in Western Europe by the extent of government control over markets (Table 1). It is possible to display the result in Figure 1 in order to classify industries and define clearly the most probable firms' strategies in each of them (Figure 2).

Table 1: Sample of Industries and the Extent of Government Control (percentage).

Industry	average approximate extent of government control over markets
Color TV tubes	0
Agricultural tractors	close to 0
Automobiles	2
Trucks	12
Microelectronics	20+
Computers	30
Aero engines	45
Civilian airframes	50
Drugs	60
Telecommunication equipment	68
Electricity-generation equipment	90
Military aircraft	100

Note: The extent of government control over markets is measured by the share of the market accounted for by government-controlled customers in Western Europe.

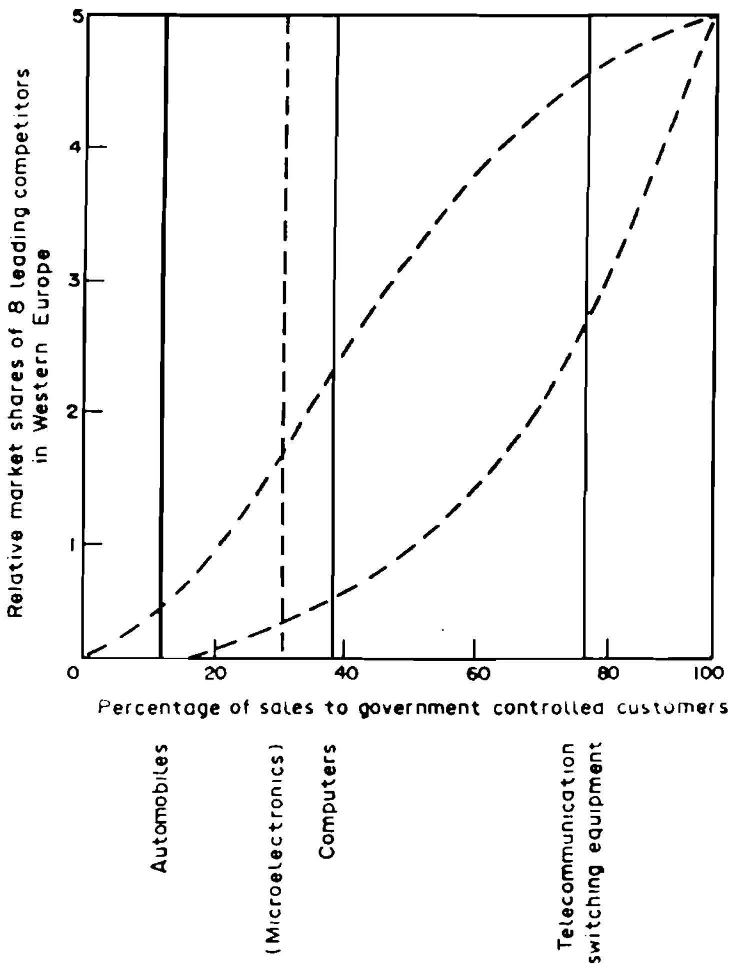
Source: Y.Doz, (1987), p. 147.

4.3 Global competition in industries

The automobile industry is an example of a global industry. However, global competition in this industry does not signify the presence of solely liberal enterprise management with governments not implementing policy to improve competitive positions of their national industry.

Some countries have set out to become major competitors in such a global industry by first closing their national markets to foreign companies (but gaining access to their technology), then by establishing an efficient domestic industry based on a rapidly growing domestic market, and finally by assisting this national industry in competing internationally. Japan provides the most striking case of such a growth strategy. In the 1950s, all Japanese suppliers were

Figure 2: Customers, market shares and strategies of some industries.



Source: Doz, (1987), p. 55.

involved in agreements with second-tier foreign producers for technology and machinery. As technology in the automobile industry was already relatively mature second-tiers' technology was comparable to that of major multinationals. In the 1960s, the Japanese Ministry of International Trade (MITI) encouraged mergers among domestic firms to achieve more efficient production. Since that time, great attention was devoted to export market needs, product quality, and the development of dealer networks abroad. In the 1950s and 1960s Japan's large domestic market remained protected by barriers to importers and by the exclusion of FDI. Only in the 1970s was foreign investors' minority equity position in Japanese companies authorized.

The transition to global competition opened new opportunities for some national industries, but isolation rather than integration could lead even a well-developed industry to decay. Countries with a large market and low cost labor were becoming very attractive to MNCs attempting to develop export bases. Brazil became made even more attractive as a result of government policies such as tax abatements and low interest rate loans to exporters, consequently deriving many benefits from the globalization of the world automobile industry. Argentina could not play the role of a base for Latin America's automobile industry because the Argentinian government was concerned with the survival of its domestic industry.

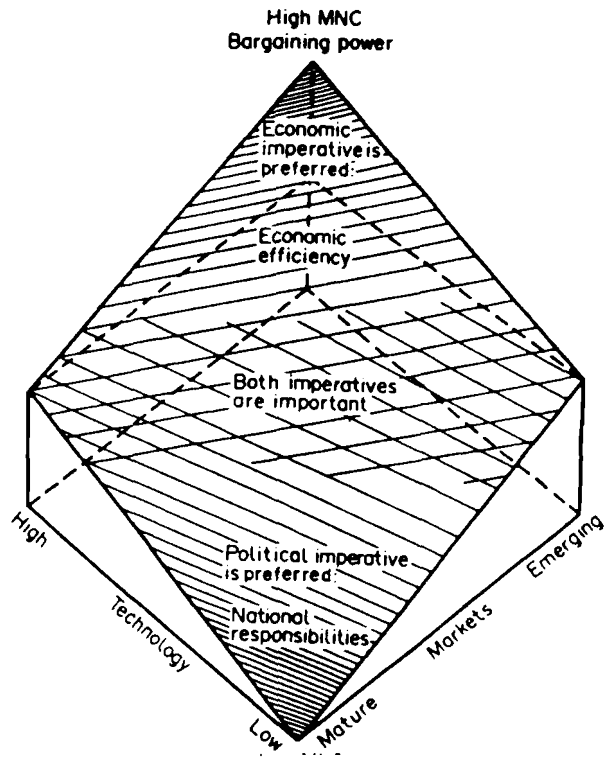
In addition, countries with a strong autonomous, nationally owned industry enhance their competitiveness through various measures. The experiences of France, Germany, and the United States suggest that a combination of direct assistance and encouragement to car manufacturers and the establishment of a large, stable, profitable home market base (usually by subsidizing cars as means of transportation and by financing highway construction) were the appropriate ingredients. The lack of similar policies in the United Kingdom and the inability to maintain good labor relations were largely responsible for the deterioration of British industry: the British market did not grow, nor did export; in the mid 1960s, Britain had 22% of the world's car exports, a decade later it was only 6% (Doz, 1987, p. 82).

Scale economies in production and the need to provide a full range of production to retain effective distribution now call for integration in the automobile industry. There are relatively few choices open to companies and governments. Company strategies tend to cluster into integration strategies or into specialization strategies aimed at exploiting particular segments and niches in the market. There is nothing for the government to do but support these strategies because protection is not a viable option to ensure the future of a national automobile industry.

4.4 Government-controlled industries

Government-controlled industries mean those whose products are sold mainly to government agencies or to state-owned customers but not necessarily made by state-owned enterprises. In addition to the military, these include state monopolies, such as mail and telecommunications or electrical utilities, railroads, or national airlines. Instead of convergence of national markets into a worldwide competitive market, these industries usually remain to compete in separate, protected and negotiated national markets. In these industry segments cost competition is offseted by competition of equipment reliability and efficiency. State-owned customers express their demands through the conditions of their purchase of equipment, and government exercise more direct control which involves access to preferential credit, joint ownership, threats to call new suppliers, the allocation of research and development contracts, and assistance for export

Figure 3: MNC Bargaining Power



Source: Y. Doz, (1987), p. 97.

sales.

The MNC bargaining power in a government-controlled business varies in accordance with the maturity of the market and the technology involved. The less mature is a market and newer the technology, the greater is the bargaining power of a MNC. Owning new products when either their technology is difficult to master or it is protected by patents or when using the product requires difficult and costly competencies, raises the bargaining power of a MNC. Conversely, the more mature is a product, and the better known and widespread its technology, the easier independent national production develops in mature markets either through takeovers of MNC subsidiaries or through national companies (market share shifts in favor of domestic suppliers). Figure 3 reflects this relationship.

Technology is the main source of power for the firm. In government controlled sectors more than in others, governments actively erode the multinational firm's advantage and force them to be increasingly responsive to national requests such as product adaptation, local compliance, employment, trade balances, location of research, and local ownership (refer to Table 2). The maturing of a national market for a new high-technology product of a multinational company shifts the balance between a national customer and multinational suppliers and, therefore, conditions of a host country and MNC agreement change in the course of time.

In summary, national responsiveness is the most obvious strategy for government-controlled business. Only some technology leaders have achieved some level of integration. The overall success of a MNC depends on its ability to adapt itself to various market conditions. Companies can also develop a posture of national responsiveness in mature markets and a partial integration

Table 2: Evolution of Host-Government Demands in a Government-controlled Market.

Emerging product market	Transition to maturity	Mature-product market
Performance/ cost rations	Local manufacturing	Autonomy of local subsidiary
Up to date technology	Adaptation of product to local conditions	Better efficiency than national competitors
Reliability, durability of equipment	Local R&D activities	Responsiveness to national policies
Financing	Exports from subsidiary	
Installation, training and start-up assistance		
Willingness to set up local manufacturing operations	Possibility, joint ownership with local interests	
Successful tender and new investment	Acquisition or joint ventures	None profitable, except on emerging segments with unique technology

Source: Y. Doz, (1987), p. 99.

in new markets. Sweeping changes in technologies sometimes alter the cost structure of the business to such an extent that the relative advantages of integration and responsiveness shift. It becomes imperative to generate the cash flow required to recoup past R&D efforts and find new ones. This shift makes competitors more willing to engage in trade of technology, either via "partnership" (alliances) or via technology transfer agreement (with weaker partners).

The level of national technology is also a key determinant of the bargaining power of host governments and sets limits to their international ambitions. A country can develop an indigenous technological capability evolving from technology transfer recipient to adapter, and even innovator. Often, the conjunction of a very large domestic market with focused R&D efforts and significant government assistance for exports has led to success.

4.5 Mixed-structure industries: difficult consent between the economic and political priorities

To a great extent, national sectoral strategies in global industries can be seen as mirror images of multinational business strategies. Government support to firms competing in these segments is driven by the same logic as multinational integration strategy: to achieve low-cost production and international competitiveness through high-production volume. The protected national position of a broadly based national industry, like a national responsiveness strategy, is provided by responding extremely well to national conditions. Finally, multinational alliances are analog to multifocal strategies. Such alliances attempt to meet economic imperatives without foregoing government control.

Table 3: Private and Public Sector Computer System Market Shares in Selected European Countries 1971–75 (in %).

	Germany		France		U.K.		Belgium	
	Total market	Public sector	Total market	Public sector	Total market	Public sector	Total market	Public sector
European suppliers	20	44	32	48	36	59	25	64
U.S. suppliers	80	56	68	52	64	41	75	36

(*) Including U.S. subsidiaries in Europe.

Source: Compiled by Y. Doz (1987) from "Report Concerning the Development in the Data Processing Sector in the Community in Relation to the World Situation," COM (76) 524, Vol. III, Brussels, Commission of the European Communities.

The host government's dilemma results from the contradiction between the conflicting economic and political priorities. Sources of government concern, such as the relationship to national defense, displacement of existing industries, threatens to end the production industries call for the development of broad based independent national capability. Yet, the strength of the competitive conditions, expressed in such features as fast and expensive technological evolution, difficulties in technology transfers (much of the technology cannot be transferred without transferring the engineers and scientists themselves and often not without maintaining their links with the original firms (Layton, 1972; Braun and MacDonald, 1978)), growing importance of control of diverse "core" technologies for protecting the independence of end-product industries together with transformation of production of some previous government-controlled sectors from socially and politically important ones to commercial businesses provide sufficient grounds to relinquish government protection and shift from national autonomy to integration strategies.

This conflict between national protection and selective international competition is not easily resolved. Just at this very time, most European countries might agree to protect the European computer industry from the American and Japanese ones based on the extent of the EC market. Table 3 shows the extent of the preference given to national suppliers in the public sector of European countries.

Doz (1987) considers that the most successful approach to gain world competitiveness of such national industries' production is selective support of national companies in international competition. "Limited national resources would need to be focused on specific product segments. Such segmentation would imply, though, that only selected national needs be met through local production. Dependence on foreign suppliers would continue for others. Competitiveness could be achieved on a narrow front, but inherent risk of integration would remain" (Doz, 1987, p. 125). The logic of this national strategy is clear: to beat the integrated MNCs at their own game. Japanese advances in the electronic industry provide an illustration of a feasible success using this approach.

Alliances among national firms can provide the critical benefits of multinationality without loss of the national responsiveness. By pooling resources and skills and providing a large multinational market, such multinational alliances overcome obstacles of economies of scale in R&D, manufacturing and marketing. The leading companies are the most attractive partners in alliances so that their leadership could be prevented from becoming dominant. In the absence of suitable multinational partners or for maintaining some balance in markets, and preventing leadership from evolving into dominance, governments often support alliances between national firms. Table 4 summarizes the correspondence between major kinds of policy tools and national strategies.

Mixed-structure industries raise the most difficult dilemmas between economic and political imperatives, but also offer the best opportunities for cooperation between MNCs and governments with growing government involvement in the economy and more sophisticated industrial policies. By the way, exactly those countries whose national markets were closely controlled by the government until recently, such as Japan, Brazil, or Mexico, show successful entry into the international economy. Thus, diversity of economic, technological and political factors increases the number and significance of mixed-structure industries.

5 Conclusions for Russia

5.1 Development of competition as a key problem of economic reform

The logic of centralized planning can be seen in wartime. It was the Polish economist Oskar Lange who defined the Soviet planning system as "a war economy sui generis." It was best suited to impose the priorities of the political leadership. In accordance with these political priorities the economy was divided into two sectors with different technical levels. The priority sector connected with the Ministry of Defense and with prestige projects maintained world competitiveness of its production and existed at the expense of the civilian sectors of the national economy. Ultimately, the economic inefficiency of most civilian industries led to the failure to satisfy growing demands of the military sector and increasing technological dependence of high-technology industries on the common technological environment caused difficulties in supporting even limited number of industries at an acceptable level.

Why were ministries and enterprises of the military-industrial complex (MIC), in contrast to civil branches, interested in the introduction of innovations and technical growth, and were they responsible for maintaining the military balance? As shown in the third part of this paper, economic competition is not always value competition. In government-controlled industries of developed countries, competition among companies is based more upon quality, equipment reliability, and compliance with the needs of state-owned purchasers than solely on price. Inside the MIC there was real competition between enterprises for getting orders and, consequently, guarantees for better wages and provisions than in the economy in general.

The economic crisis occurred when the state, as the single customer for these industries became bankrupt. The only possible decision was to improve state revenue and the only known way for stimulating economic efficiency was the establishment of a market system. The economic reform was inevitable. Nikolay Shmelev expressed the situation in these words: "It is essential to realize that the cause of our difficulties is not only or not solely due to the heavy burden of military expenditures and the very expensive global responsibilities of our country. If we expended them correctly, even the remaining resources would be sufficient for maintaining a balanced and technically progressive economy and for satisfying the traditionally modest needs of our population. However, prolonged attempts to break up the objective laws of economic

Table 4: National policies

Government tools	Selective competition	Broad base protection	Multinational alliance
1. Market access control	Important to establish domestic base and provide early volume to decrease costs. Early sales may be subsidized. Unneeded later on.	Provides only possible market and underlies choice of this policy, (e.g., problems with the French military buying TI's circuits rather than SESCOSEM's).	Contrary to the purposes of the alliance but useful to bring in MNC partner collective protection (e.g., the EEG limiting U.S. imports).
2. Subsidies and grants	Required to provide resources needed to acquire commanding positions in selected segments: R&D assistance, investment grants, employment/training subsidies. Should disappear after a few years if policy successful.	Unescapable unless full market control is achieved, and only higher priced or less performant equipment is made availabe (e.g., SESCOSEM pre-1978).	Should be minimal, except at start-up phase. Similar to selective competition approach. May be necessary to bring in valuable partners (e.g., C21-Honeywell).
3. Fiscal incentives	Possible: tax rebates, accelerated depreciation, capitalized R&D, etc.	Same as for selective competition, but less critical if more direct means of protection available.	Same as for selective competition.
4. Export assistance	Very important, particularly to controlled markets (e.g., Soviet Union).	Possible, but success may only take place where major companies are forbidden to participate (e.g., microelectronics manufacturing equipment sales to Polaroid).	Very important. May be needed to bring valuable partners.
5. Pricing policies, financing policies	Higher domestic prices and high debt leverage to provide cash flows to expand abroad. Domestic prices to be lowered later on.	Prices set to ensure viability of firm, higher than international prices.	Should apply pressure to align prices with those of integrated MNCs.

Source: Y. Doz, (1987).

life, to suppress the age-long natural stimuli for human labor, brought out results quite different from what was intended" (Shmelev, 1987).

The following market propaganda was similar to that of the former communists. Nobody could predict that the Russian economy would fall into lingering crisis or even to economic disaster. Deliberately or *de facto*, the market (i.e., the system of free price formation) occupied all economic spaces which had dropped out of the authority of production-administrative systems. But the famous economic mechanism did not function. Instead, it only destroyed the economy more and more. Soon it was noticed that a market system without internal competition does not automatically lead to economic prosperity. "Such an economy is characterized by a high rate of inflation, corruption, low efficiency of production, sharp differentiation in the living standards of the population, and social tension. So we should not be surprised that the growth of market forces under the monopoly of the highest degree—a characteristic feature of the Soviet economy—does not lead to increased efficiency of production and greater supply of goods but to price increases, falls in output, and shortages" (Glaziev, 1991, p. 105).

The attempts to develop markets, let alone growing markets which are necessary in times of reconstruction have failed and the country faced an economic crisis. These attempts are useless because one of the fundamental characteristics of efficient market activity is the presence of a solvent purchaser. Without customers for the products of Russia's high-technology sectors, the industrial system will require inevitable restructuring; perhaps not in the desirable manner required for technological progress and economic prosperity, but in a fashion that rather suits contemporary living standards of the population and conditions of the national budget. So, the time of self-sufficient development in Russia is at an end and future advances will depend on how negotiations are conducted with foreign customers or partners in production and distribution alliances.

Economic efficiency and competitiveness of national production is one of the main aims of national industrial policy-makers, the same as with MNC executives. Firm behavior differs in correspondence with the diversity of economic and technology characteristics of the industry in which they work, the competitive posture of the firm, and so on. By analogy, the national industrial policy must be essentially diverse for different sectors of the economy: free market and global competition in one industry may combine with close government control and central planning in another. A mix of planning and market must base itself on commercial reasoning and scientific forecasts about technology and industrial development. The difficulties for the Russian government lie not only in inevitable admission of the fact that successful transition will be limited to a smaller group of industries or enterprises inside an industry than presently exist.

5.2 National industrial policy and multinational corporations

The basic differences between industries and the competitive posture and strategies of different firms in the same industry greatly influence host governments trying to devise and implement industrial policies. It is important for a government to understand both the characteristics of the specific industry structures, and the differences in the efficacy of various means of intervention.

On the surface, the United States government appears to have the most flexible policy framework for a broad range of industries, including almost all of high-technology. Japanese industrial policy sets out to dominate selected, narrowly defined segments serving selected end-products. This strategy aims at leadership in modern high-growth sectors where advances are more profitable now and important for future development. European countries follow the policy of integrated or coordinated national efforts within the European Community in order to maintain competitiveness versus powerful U.S. and Japanese corporations.

What kind of industrial policy should the Russian government follow? Presently, Russia can hope to become globally competitive in only a few selected industries and, what is more, it is often possible only in cooperative alliances with foreign business. An aversion to complete destruction of the part of the economy that cannot hope to endure international competition in the nearest future is the most urgent political and economic issue. Conditions must be created to gradually improve the competitive posture and bargaining power of national firms that resemble the contemporary international type.

The knowledge concerning preferable industrial structure in different segments of the economy is necessary for elaborating national industrial policy. It should influence all government programs as, for example, privatization. In the process of economic reform the privatization of most state property is considered one of the key pre-conditions for the successful marketization and reconstruction of the Russian economy. Privatization can assist in reducing monopolization and creating a preliminary base for competition. The present privatization program intends to sell each enterprise independently. Consequently, this may lead to the destruction of the past production-department unions, some of whose output is high-technology production. Nonetheless, these types of Russian goods can now be sold only in the international market. Thus, the fear is justified that the production of huge western MNC will emerge victorious in their competition with mostly dismembered Russian firms. It is clear that competitors must be in the same class. If a country is not able to establish a domestically competitive market, it will be confronted with growing "national champions." Not without reason, the Japanese government provided a policy of integrating national companies into powerful units in anticipation of international competition.

The conditions for survival and success of firms in internationally competitive industries may be determined analytically. The failure of such famous companies as Chrysler, whose integration was too slow for the imperatives of an automobile industry, or as Westinghouse, which in contrast tried to integrate production in a traditionally government-controlled sector, once more confirms the importance of adopting the predictable strategies.

On the other hand, work on industrial policy should not be guided by considerations about present industry structure because new technologies may put in question traditional boundaries between industries and raise new opportunities for competition. Industrial policy should ideally consider the future and prepare for the development of new technology applications and diversity of corresponding needs (i.e., from the availability of specialists to defining distribution networks). There is little evidence to suggest great government foresight in identifying potentially significant industrial innovations. Russian governments, like many others, have very often just realized the importance of a new industry when foreign companies had already managed to achieve considerable success in its development.

The aforementioned causes should motivate Russia to seek collaboration with international business institutes, including the most powerful among them—multinational corporations.

Though Russia wishes to maintain a liberal policy, it does not intend to allow foreign companies to reap the greatest benefit from her more free market policy or, what is worse, to make them sole owners. The behavior of foreign business will be defined by what will be easy and profitable: either to gain access to low-cost productive input factors now or to work for the huge future Russian market. The aim of a government's international policy is to prevent the former and to stimulate the latter.

Doz wrote: "Selecting which firms to negotiate with, and what for, thus becomes a critical element of industrial policy in international industries (e.g., where reigns global competition)" (Doz, 1987). Direct foreign investments are better than portfolio ones because they bring not only financial resources but also a package of product, technology, management, and market access. Nevertheless, they bear a danger that foreign subsidiaries might dominate national enterprises. The most popular way to access these advantages are joint ventures, licensing agreements, management contracts, and turnkey arrangements—all substitutes of total or majority ownership. On the one hand, officials should regulate the multinationals so as to maximize national benefits and to minimize national costs. On the other hand, they should not make regulation so restrictive that it will deter potential investors. The government can define the pre-conditions for cooperation with bilateral or multilaterial agreements (such as bilateral investment treaties, taxation regulation, patent legislation) in ways which increase the attractiveness of investment opportunities and, thus, intensify competition among foreign businessmen for making a contract. The accordance of FDI to government plans for industrial reorganization is the main purpose of control and regulation policy.

So, government policies play a very significant role in creating pre-conditions for a new Russian economy, but the deciding vote belongs to Russian business. In today's Russian circumstances, it is very important for enterprises to attract foreign investors or partners, to screen them, to find or collect detailed economic and technological data for the proposed project and investors, and to elaborate advantageous contracts in the end.

Information is needed with respect to formulating policies which affect the role that a MNC might play in the given economy. It is also a crucial determinant of the capacity of governments or national companies to negotiate satisfactory deals with MNCs. Information relevant to any negotiated process includes, among others, the strategies used by MNCs, the policies and strategies of other countries with respect to MNCs engaged in similar activities, and the international market forces. MNCs usually have easy access to such information, while for Russian government institutes and local enterprises it is often a difficult problem. Jorg Simon, a member of the U.N. Centre on Transnational Corporations writes: "In general, to manage the activities and participation of transnational corporations (TNCs) in the economy, the Government of a host developing country has to establish an institutional infrastructure. The objective of National Informational Systems on Transnational Corporations (NISTNC) is to assist the appropriate agency(ies) in responding to the information needed at the several levels of the involvement of TNCs in the host country" (Simon, 1991).

It is necessary to organize a special scientific-consulting center on MNCs in Russia (not to mention the specifics of government control structures). Cooperation with such organizations existing in other developing as well as developed countries and with the U.N. Center of Transnational Corporations may enrich both Russian economic knowledge and data and that of other countries. Besides serving present national policy or firms' business objectives, this center could contribute to economic science by studying MNC behavior in the transition to a market economy—as yet, a neglected area of research and potential.

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APPENDIX

Table 1: Distribution of foreign direct investment inflows, by major region, 1975–1985, (in %)

Country groups by region	1975	1980	1981	1982	1983	1984	1985	Annual averages 1975–80	Annual averages 1981–85
Developed market economies	**70.6**	**80.5**	**73.6**	**69.8**	**76.8**	**78.5**	**76.7**	**76.6**	**75.2**
United States	12.1	32.4	44.7	31.1	27.0	51.7	38.9	24.6	39.2
Western Europe	47.0	41.0	29.7	32.9	37.0	19.8	33.7	43.3	30.4
Japan	0.9	0.6	0.4	0.9	0.9	-	1.2	0.3	0.6
Other	10.2	6.7	1.2	4.5	11.6	6.7	2.8	8.4	4.5
Developing countries	**29.3**	**19.3**	**26.4**	**30.2**	**23.2**	**21.3**	**23.3**	**23.4**	**24.8**
Africa	2.3	0.4	3.2	3.8	3.6	3.1	3.4	2.5	3.3
Latin America and the Caribbean	15.3	11.9	13.6	14.4	7.7	7.0	9.1	12.5	10.5
Western Asia	3.3	0.6	-	0.7	0.7	1.2	1.0	1.9	0.8
Other Asia and Oceania	7.4	6.1	9.3	10.8	10.7	9.6	9.1	6.2	9.9
Southern Europe	0.9	0.2	0.4	0.2	0.2	0.4	0.4	0.3	0.4
World[a]	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Billions of dollars	21.5	52.2	56.8	44.5	44.1	49.0	49.3	32.1	48.7

[a]Excluding the centrally planned economies of Europe.

Source: United Nations Center on Transnational Corporations (1983), based on International Monetary Fund, balance-of-payments tape; and other official national and international sources.

Table 2: Distribution of foreign direct investment outflows, by major home country, 1975–1985, (in %).

								Annual averages	
Country groups by region	1975	1980	1981	1982	1983	1984	1985	1975–80	1981–85
Developed market economies	**98.9**	**98.1**	**99.4**	**96.6**	**97.3**	**98.6**	**98.0**	**98.8**	**98.0**
Western Europe	**36.6**	**47.2**	**53.6**	**59.0**	**60.5**	**59.2**	**50.4**	**44.4**	**55.6**
France	4.7	5.4	8.3	8.6	4.7	4.9	3.7	4.5	5.5
Germany, Federal Republic of	7.2	7.3	7.6	8.6	8.8	10.0	8.2	7.7	8.6
Italy	1.1	1.2	2.6	3.1	5.8	4.6	3.0	1.0	3.8
Netherlands	8.3	10.4	8.7	10.1	10.1	11.6	5.3	9.4	8.8
Switzerland	-	-	-	-	1.4	2.6	6.0	-	-
United Kingdom	10.9	19.8	22.6	22.0	22.5	18.8	18.7	17.4	20.8
Japan	6.5	4.2	9.1	13.8	9.9	13.7	10.7	5.5	11.0
United States	51.4	38.0	22.9	19.0	9.9	13.2	25.4	42.4	19.0
Developing countries	**1.1**	**1.9**	**0.6**	**3.4**	**2.7**	**1.4**	**2.0**	**1.2**	**1.8**
World[a]	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Billions of dollars	27.6	57.6	54.1	32.7	36.5	43.1	59.9	40.3	45.3

[a]Excluding the centrally planned economies of Europe.

Source: United Nations Center on Transnational corporations, based on International Monetary Fund, balance-of-payments tape; and other official national and international sources.

Table 3: Inward stocks of foreign direct investment, by major host region, 1975–1985, (in Billions of US dollars).

Countries/region/areas	1975 Value	1975 percentage of total	1975 percentage of GDP	1983 Value	1983 percentage of total	1983 percentage of GDP	1985 Value	1985 percentage of total	1985 percentage of GDP
Developed market economies	**185.3**	**75.1**	**4.5**	**401.0**	**75.6**	**5.1**	**478.2**	**75.0**	**5.5**
Western Europe	100.6	40.8	5.8	159.6	30.1	5.6	184.3	28.9	6.6
United States	27.7	11.2	1.8	137.1	25.9	4.2	184.6	29.0	4.7
Other[a]	57.0	23.1	7.0	104.3	19.7	6.0	109.2	17.1	5.7
Japan	1.5	0.6	0.3	5.0	0.9	0.4	6.1	1.0	0.5
Developing countries and territories	**61.5**	**24.9**	**6.4**	**138.4**	**24.4**	**7.4**	**159.0**	**25.0**	**8.5**
Africa[b]	16.5	6.7	15.7	19.6	3.7	9.7	22.3	3.5	10.8
Asia[c]	13.0	5.3	3.2	40.1	5.8	4.9	49.6	7.8	5.7
Latin America and the Caribbean[d]	29.7	12.0	8.9	73.2	13.8	11.9	80.5	12.6	13.6
Other[e]	2.3	0.9	2.1	5.4	1.0	2.4	6.6	1.0	3.4
Total	**146.8**	**100.0**	**4.9**	**539.4**	**100.0**	**5.5**	**637.2**	**100.0**	**6.1**

[a]Australia, Canada, Japan, New Zealand, South Africa.
[b]Botswana, Cameroon, Central African Republic, Congo, Ivory Coast, Egypt, Gabon, Ghana, Kenia, Liberia, Libyan Arab Jamahiria, Malawi, Mauritius, Morocco, Nigeria, Senegal, Seychelles, Sierra Leone, Togo, United Republic of Tanzania, Zaire, Zambia, Zimbabwe.
[c]Bangladesh, China, Hong Kong, India, Indonesia, Malaysia, Pakistan, Philippines, Republic of Korea, Singapore, Sri Lanka, Taiwan Province, Thailand.
[d]Argentina, Barbados, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Guyana, Jamaica, Mexico, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela.
[e]Fiji, Papua New Guinea, Saudi Arabia, Turkey, Yugoslavia.
[f]Excluding the centrally planned economies of Europe, for which no precise data are available.

Source: United Nations Center on Transnational Corporations, based on J. Dunning and J. Cantwell, IRM Directory of Statistics of International Investment and Production (New York, New York University Press, 1987); and official national and international data.

Table 4: Outward stocks of foreign direct investment, 1975–1985, (in Billions of U.S. dollars).

	1960			1975			1980			1985		
		percentage of			percentage of			percentage of			percentage of	
Countries/region	Value	total	GDP	Value	total	GDP	Value	total	GDP	Value	total	GDP
Developed market economies	**67.0**	**99.0**	**6.7**	**275.4**	**97.7**	**6.7**	**535.7**	**97.2**	**6.7**	**693.3**	**97.2**	**8.0**
United States	31.9	47.1	6.2	124.2	44.0	8.1	220.3	40.0	8.2	250.7	35.1	6.4
United Kingdom	12.4	18.3	17.4	37.0	13.1	15.8	81.4	14.8	15.2	104.7	14.7	23.3
Japan	0.5	0.7	1.1	15.9	5.7	3.2	36.5	6.6	3.4	83.6	11.7	6.3
Germany, Federal Republic of	0.8	1.2	1.1	18.4	6.5	4.4	43.1	7.8	5.3	60.0	8.4	9.6
Switzerland	2.3	3.4	26.9	22.4	8.0	41.3	38.5	7.0	37.9	45.3	6.4	48.9
Netherlands	7.0	10.3	60.6	19.9	7.1	22.9	41.9	7.6	24.7	43.8	6.1	35.1
Canada	2.5	3.7	6.3	10.4	3.7	6.3	21.6	3.9	8.2	36.5	5.1	10.5
France	4.1	6.1	7.0	10.6	3.8	3.1	20.8	3.8	3.2	21.6	3.0	4.2
Italy	1.1	1.6	2.9	3.3	1.2	1.7	7.0	1.3	1.8	12.4	1.7	3.4
Sweden	0.4	0.6	2.9	4.7	1.7	6.4	7.2	1.3	5.2	9.0	1.3	9.0
Other[a]	4.0	5.9	3.1	8.5	3.0	1.7	17.4	3.2	1.9	25.6	3.6	3.3
Developing countries	**0.7**	**1.0**	—	**6.6**	**2.3**	—	**15.3**	**2.8**	—	**19.2**	**2.7**	—
Centrally planned economies of Europe	—	—	—	—	—	—	—	—	—	**1.0**[b]	**0.1**	—
Total	**67.7**	**100.0**	—	**282.0**	**100.0**	—	**551.0**	**100.0**	—	**713.5**	**100.0**	—

[a]Australia, Austria, Belgium, Denmark, Finland, Greece, Ireland, New Zealand, Norway, Portugal, South Africa, Spain.
[b]1983. Rough estimate.

Source: United Nations Centre on Transnational Corporations, based on J. Dunning and J. Cantwell, IRM Directory of Statistics of International Investment and Production (New York, New York University Press, 1987); and official national and international data.

Table 5: Selected home countries: ratio of outward foreign direct investment stocks to total corporate assets (in %).

Year	United States: All corporations	United States: Non-financial corporations	Japan	Federal Republic of Germany	United Kingdom[a]
1945	1.8	—	—	—	—
1950	2.1	4.2	—	—	—
1955	2.4	5.6[b]	—	—	16.0
1960	2.9	—	—	—	18.0
1965	3.1	6.8	—	1.4	18.3[c]
1970	3.2	6.8	0.4[d]	2.3[e]	22.7
1975	3.1	6.4	0.9	3.4	21.8
1980	3.0	5.3	0.9	4.8	22.6
1981	2.9	5.6	1.2	5.6	27.1
1982	2.6	5.4	1.4	5.9	29.0
1983	2.2	4.8	1.4	6.3	31.0
1984	2.1	4.7	1.7	7.2	—
1985	2.1	4.7	1.5	—	—

[a]1957.
[b]1966.
[c]1971.
[d]1969.

Source: United Nations Centre on Transnational Corporations, based on official national sources.

Table 6: Rates of return on United States foreign direct investment abroad (in %).

Region sector	1980	1981	1982	1983	1984	1985
Developed countries	**16.5**	**11.7**	**8.0**	**9.0**	**9.0**	**16.2**
Petroleum	26.5	20.3	12.9	14.8	16.8	16.2
Manufacturing	12.4	8.1	5.9	7.5	6.3	17.8
Other	15.7	10.9	7.4	7.1	7.2	14.1
Latin America	**18.8**	**15.8**	**7.6**	**2.4**	**5.4**	**10.0**
Petroleum	23.0	23.0	17.1	9.7	0.2	8.3
Manufacturing	15.8	11.5	1.6	-1.4	6.6	10.1
Other	20.0	17.4	10.4	3.3	10.3	11.0
Other developing countries	**41.8**	**40.9**	**29.9**	**22.5**	**23.8**	**18.6**
Petroleum	79.7	65.3	42.6	26.1	28.5	21.2
Manufacturing	18.3	18.2	12.8	18.4	20.1	17.6
Other	24.2	25.9	22.9	19.7	18.7	25.2

Source: United States, Department of Commerce, *Survey of Current Business*, various issues.