

Globalization and development: an international business strategy approach

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This article seeks to reformulate the “colourful and fluid” early debate on the effects of foreign direct investment in two ways. Firstly, the wide range of separate specific concerns of the early debate are subsumed within four generic issues: efficiency, distribution, sovereignty, and growth and development. Secondly, the analysis is now structured around modes of analysis of transnational corporations, as the agents that carry out foreign direct investment. Transnational corporations are seen as using the freedoms of international transfers central to globalization in order to leverage competitively the differences of national (or other coherently-defined) economic units. Crucially this response to difference is analyzed as reflecting three potential strategic motivations: market seeking, efficiency seeking and knowledge seeking. The core of the article investigates how the adoption of different motivations by transnational corporations would affect performance in terms of the different generic issues. The synergies of this mode of analysis with trade policy (the implicit, or often very explicit, move to outward-oriented industrialization in the era of globalization) and new growth theory are also discussed.

Key words: globalization, TNC strategy, efficiency, distribution, growth and development

Introduction

The early debate on the role of foreign direct investment (FDI) in developing countries has been neatly characterized as

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“colourful and fluid” (Balasubramanyam, 1985, p. 159). One reason for the colourfulness of this debate was its emergence within the politically-charged birth of development economics *per se* and related attempts to co-opt it into disparate wider political-economic postures. This points forward to my, hopefully calmer, concern here with the parallel need to *evaluate* transnational corporations (TNCs) as participants in the processes of globalization. Another factor in leaving the early debates open and fluid was the lack of a commonly agreed methodology for analysing, in a convincing manner, an observable mode of international transaction (FDI) with an obvious potential for a wide-ranging diversity of often intangible or unmeasurable implications. This meant that much early analysis of the developmental effects of FDI fractured around detailed investigations of specific aspects of a wide range of separate areas of concern (e.g. extent and appropriateness of technology transfer; job generation and employment conditions; the allegation of decapitalization; balance-of-payments and trade effects; bargaining mechanisms; spillovers; industry structure).¹ As V. N. Balasubramanyam (1985, p. 173) indicates, the emergence of a separate analysis of the TNC (as the principal source of FDI) and its immediate association with market imperfections further undermined attempts (e.g. MacDougall, 1960) to formalize the evaluation of FDI around the constructs of orthodox trade theory and, in particular, perfect competition.

If early theorizing of the TNC helped to explain the indecisiveness of attempts to evaluate the implications of FDI, then the subsequent analysis of these firms, now most usefully positioned at the interface of business strategy and economics, provides methodologies that are highly attuned to elucidation of issues of globalization and development. Central to this analysis, and to the lines of argument developed here, is a preference for *organizing* an understanding of *diversity*, rather

¹ These issues have been reviewed and evaluated in MacBean and Balasubramanyam (1978, chapter 8), Casson and Pearce (1987) and Dunning (1994).

than simplifying it or assuming it away. Two vectors of diversity define the structure of our subsequent analysis.

Firstly, the aims of an evaluation of TNCs in a globalized economy are seen as still having logical origins in the diversity of concerns addressed in early analysis of FDI. However, to organize these into a more functional structure, I suggest that these variegated concerns can be subsumed into an evaluation framework of four distinct generic issues (Dunning and Pearce, 1994). Within globalization, the opening of national economies (with an increasing freedom of trade) has been interpreted as allowing TNCs to improve the ways in which productive resources are used, so that *efficiency* becomes an element of the framework through which we evaluate their performance. By contrast the “flexibility and adaptability” (Balasubramanyam, 1985, p. 160) provided to TNCs by globalization may limit their need for positive embeddedness in the *growth and development* processes of individual national economies. This provides another concern for the evaluation framework. However, an important insight of analysis of the growth of TNCs was that organizing globally through “an internal bureaucracy of the enterprise transcending the market” (Balasubramanyam, 1985, p. 161) gave them powers “in areas of pricing of products and technologies”, and in bargaining more generally, that raised issues of the *distribution* “of gains between [TNCs] and host countries”; furthermore, these characteristics of TNCs give them control over dispersed elements of a global strategy that can be “seen to pose a threat to the economic *sovereignty* of new nation states in the Third World” (Balasubramanyam, 1985, p. 161).

The core of this article, therefore, seeks to evaluate the implications of TNCs in terms of the four broadly-defined issues of efficiency, distribution, sovereignty, and growth and development. To do this, it is useful to characterize the strategic posture of the contemporary TNC as one of seeking to use the increasing freedoms of international transfers, reflecting the essence of economic globalization, to leverage the *differences* between economic areas. Such areas may, in practice, be national economies (especially where policy factors are

influential), regions defined by the capacity to support cost-effective production,² or the type of technology- and skill-based agglomerative clusters that build around creative interdependencies and tacit-knowledge spillovers (Porter, 1998, chapter 7; Birkinshaw and Hood, 2000; Cantwell and Iammarino, 1998; Balasubramanyam and Balasubramanyam, 2000).

To operationalize this view of the TNC as responding to such international differences, it is useful to see its overall global strategy as encompassing a number of analytically separable motivations or priorities.³ Thus, this framework discerns three strategic aims.⁴ Firstly, *market seeking* (MS), in which a TNC invests in a particular economy in order to supply its established

² A specialized institution here is the export processing zone (EPZ) “defined as an enclave outside the customs territory of a country” (Balasubramanyam, 1988, p. 157). Goods are allowed to enter an EPZ for processing, storage and manufacture without payment of customs duties and local taxes, and subsequently re-exported without payment of duties. With access to low-cost labour and the support of tax holidays and other fiscal incentives, such EPZs can attract the efficiency-seeking elements of TNCs’ global strategies. In some countries, such as India, Indonesia and the Philippines, the early adoption of EPZs served as a “grudging concession in favour of an outward-looking strategy of development” within a policy context that remained predominantly protectionist and “centred on import-substituting industrialisation” (Balasubramanyam, 1988, p. 158). Where EPZs represented such a policy compromise, serving as “a second-best method of attracting FDI into export industries for countries wedded to protecting their import-competing industries”, the results were usually unsatisfactory in terms of immediate performance or developmental impetus. As examples of EPZ success, the city states of Hong Kong and Singapore are seen by Balasubramanyam (1988, p. 164) to tell a different story since “the entire economy in [these cases] could be regarded as a duty-free zone” and thus operatively closer to his (1988, p. 161) “first-best method [of] the adoption of a liberal foreign trade regime bereft of tariffs and quotas on imports”. Residual distortions, after the 1991 reforms, are found by Balasubramanyam and Mahambare (2003, pp. 65-8) to play a major role in the persisting limited success of EPZs in India.

³ The antecedents of the approach used here are in Behrman (1984) and Dunning (1993).

⁴ A fourth logical motivation, not used here, would be characterized as “natural-resource (or primary product) seeking”.

products to the market of that country. Secondly, *efficiency seeking* (ES), where a TNC's operations in a particular location are expected to supply certain parts of the product range to the company's international markets in a highly cost-competitive manner. Finally, *knowledge seeking* (KS), which involves the internationalization of a TNC's learning, technology-generation and creative processes. The two aspects of KS invoked in the subsequent discussion here are product development through product mandate (PM) affiliates,⁵ and decentralization of R&D operations (including precompetitive basic/applied research).⁶ The exposition also makes use of the ownership advantage (OA) and location advantage (LA) elements of John H. Dunning's (Dunning, 1977, 1993, 2000) eclectic framework.

The aim of the methodological framework outlined here is, ultimately, to understand how TNCs' strategic behaviour (now conditioned in particular by the forces of globalization) affects the development of the *global* economy. The efficiency criterion is explicitly articulated at this level. However, since the argument then focuses on differences between components (locations) of this global economy, much of the remaining exposition is mainly illustrated by the cases of developing countries or economies in transition. It is not, though, explicitly about (or limited to) these cases, but uses them to exemplify factors likely to impinge on changes or processes faced by any country (or location) affected by TNC behaviour responding to an opening global economy.

⁵ Product mandates are creative affiliates (Pearce, 1999a) which take responsibility for the creation as well as supply of parts of a TNC's product range. They were originally conceptualized (Poynter and Rugman, 1982; D'Cruz, 1986) from observation of affiliates operating in Canada. Their position in contemporary strategies of TNCs have been investigated by *inter alia* Papanastassiou and Pearce (1999), Roth and Morrison (1992), Birkinshaw (1996), Feinberg (2000), and Tavares and Pearce (2002).

⁶ The role of dispersed R&D in the globalizing strategies of TNC has been investigated from many perspectives (e.g. Hakanson and Nobel, 2000; Furu, 2000; Granstrand, 1999; Pearce, 1999b; Papanastassiou and Pearce, 1997a, b; Kuemmerle, 1999).

Efficiency

Here we address the purely economic concern with the effectiveness (allocative and productive efficiency) of the use of the *world's* fixed stock of resources and capabilities. Essentially, I idealize the question as “under what conditions do the operation of TNCs in a host country contribute to raising world economic welfare to a level that could not have been achieved in any other way?”

I can perhaps initiate discussion rhetorically, with the suggestion that the sustained growth, in recent decades, of the numbers of internationally-competing firms, alongside the persistent deepening of the global scope of most existing TNCs, must surely be strongly indicative of such efficiency growth. Immediately, however, a full acknowledgement of the strategic heterogeneity of TNCs questions the inevitability of such a prescription. Two aspects of the strategic concerns or behaviour of TNCs can support such doubts.

Firstly, the presence of MS motivation certainly need not support, and often actively compromises, productive efficiency. Two historical contexts can now be seen as having generated MS behaviour in TNCs. During the interwar years, the economic disruption of the early 1920s and the later period of sustained economic depression, generated high levels of protectionism in most leading industrial economies. This forced many firms with a strong established commitment to international markets to extend considerably the number of countries in which they located supply facilities, with such production affiliates now predominantly constrained to provide only for the host-national market. This mode of international supply can be seen to remain dominant in the first two decades after World War II, as trade protection remained in place but the individual national economies grew at healthier rates in response to processes of reconstruction and the confidence generated by an emergent belief in Keynesian macro policies.

A second historically distinctive wave of MS investment by TNCs occurred in the 1950s and 1960s, in response to the

import-substitution strategies adopted by many poor countries seeking to initiate a manufacturing sector. Here again, TNCs had to resort to tariff-jumping investment in order to retain access to established profitable markets for their goods, in the face of infant-industry protection. A second significant factor often conditioned this mode of MS behaviour by TNCs, however, in the form of a dualistic or highly-inequitable local economy. Thus the availability of significant demand for the normally middle- and high-income goods that were supplied in TNCs' existing trade patterns frequently required the presence of a peculiarly prosperous elite in essentially poor countries. A concomitant use of capital- and skilled-labour-intensive production processes by TNCs often meant that they not only supplied an urban elite but also generated employment and reward patterns that served to reinforce it. Ultimately the difficulty of sustaining and deepening this form of industrialization, and the limited potential for such industrial/urban growth to spread into wider forms of development, led to the abandonment of these import-substitution strategies.

A third, more contemporary and differently focused, use of the MS strategy has also been observed. Thus survey evidence (Manea and Pearce, 2004a; Lankes and Venables, 1996; Mutinelli and Piscitello, 1997; Rojec and Svetlicic, 1993) on the early operations of TNCs in the Central and Eastern European (CEE) transition economies found that, rather than the predicted extensive ES use of (presumably cost-effective) inputs, the predominant initial motivation was MS supply of local markets. Rather than the traditional response to new protection barriers denying access to established markets, the MS in this case has a more market-development orientation, with local production and marketing seeking a first-mover familiarity within these new environments. In fact there may thus be an implicit *a priori* acceptance of inefficiency in this approach to the geographical expansion of established TNCs, acknowledging that the relatively unformulated economic, market and institutional infrastructure of these CEE economies would preclude optimized decisions regarding immediate supply potentials. MS entry may here allow TNCs to use their most secure OAs (underpinning supply of well-established goods) to learn about the real

capabilities of CEE LAs, prior to possible movement to more refined ES operations or even creative accessing of technological and skilled capacities (KS) (Manea and Pearce, 2004a, b).

These contexts for use of MS strategy by TNCs are likely to generate inefficiency in several ways. Firstly, the limited markets in which MS behaviour was usually constrained would be likely to preclude a full realization of plant-level economies of scale. Secondly, the fact that patterns of production in MS operations were dictated by the structure of demand and protection in the local economy, rather than its most effective productive potentials (static comparative advantage), provoked problems of inappropriate technology transfer. Thus, TNCs again suffer from non-optimization of the use of their OAs, whilst host-countries do not secure the most efficient activation of their LAs. Thirdly, the protection against imports and frequent limitations in local competition often allowed scope for high levels of X-inefficiency.

A second strategic context for understanding that TNC expansion often did not mean achievement (or even pursuit) of optimized efficiency emerged from pioneering research (Knickerbocker, 1973; Flowers, 1976; Graham, 1978) on oligopolistic interaction in the location decision process. Such research indicated that many TNC investment decisions (at least in increasingly concentrated globally-competitive industries) were made more as a subjective response to moves made by leading rivals than on the basis of an independent objective evaluation of a country's LAs in conjunction with the firm's OAs. Rather than proactively making location decisions directly aimed to optimize their own efficiency, growth and profitability, TNCs were often taking defensive options to limit the effect on their position of rivals' moves and/or to precisely constrain the benefits pursued by rivals.

Though quite significant elements of MS behaviour may still play important roles in the competitive expansion of contemporary TNCs, changes central to the evolution of the global economy have moved the focus of their strategic development elsewhere. Two of these changes explicitly remove

the key LAs that supported earlier MS dominance. Firstly, the moves towards a free-trade environment, through the multilateral negotiations of GATT/WTO rounds and the rise of significant regional-integration schemes (EU, NAFTA, MERCOSUR, ASEAN). Secondly, the reorientation of developing countries' industrialization strategies away from protectionist import-substitution towards export-oriented participation in an opening global economy.⁷ Taken with a rise in the numbers of major internationally-operating firms in many industries, the systematic opening of national economies amounts to a radical intensification of *globalized* competition for TNCs. At the level of an established MS affiliate this change was manifest in the removal of protection for its inefficiencies, through an opening to generalized import competition and, crucially, a more focused group-level awareness that the particular national market might now be supplied more cost-effectively by another affiliate through trade. The latter perception is central to TNCs' *use* of freer trade to move towards network supply strategies in which individual affiliates play the ES role.⁸

⁷ An element of potential distortion sometimes remained present when *preferred* access to developed country Generalised System of Preference (GSP) schemes replaced *protected* access to domestic markets as a policy basis for infant-industry support.

⁸ In an investigation of Japanese FDI in the European Union in the buildup to the 1992 Single European Market programme, Balasubramanyam and Greenaway (1992, pp. 185-186) trace two routes to the emergence of export-oriented (i.e. ES) operations using the increased freedom of Union-wide trade. Firstly, "*bridgehead investment* refers to new investment in a specific location which is regarded as a base from which to supply the wider European market." To the extent that the decision to produce within *Europe* here includes concern over "fortress Europe" then this "fortress-jumping investment" includes a clear residual element of MS behaviour. But the precise location chosen as the bridgehead in the European Union is then likely to reflect ES influences. Secondly, completion of the Single European Market may affect incumbent operations in the European Union in the form of *rationalization investment*, involving "a restructuring of existing operations, for instance closing down some facilities and concentrating on others, or building additional plants to service the entire market rather than subsets of it." Here, operations that would have originally responded to MS imperatives are now reformulated to meet a new ES context. Affiliate positioning and evolution in the context of European Union strategy has been investigated for Ireland (Tavares, 2001) and Portugal (Tavares and Pearce, 2001).

An individual affiliate in an ES supply programme would specialize in the production of a small part of the TNC group's overall product range and export the vast proportion of output for distribution through the firm's global marketing network.⁹ Such an affiliate repositioning would be expected to overcome the inefficiencies endemic to the MS role. Firstly, group-wide market access would be likely to remove possible constraints in the realization of plant-level economies of scale. Secondly, the need to sustain levels of productivity that are open to the informed scrutiny of planners of the group's internally-competitive supply network should remove any significant X-inefficiency. Thirdly, what goods or services an ES-affiliate produces can be selected so as to seek to optimize the match between the production technology used and the most cost-effective input availabilities of the host country (i.e. its strongest sources of static comparative advantage).

If the achievement of economies of scale and the removal of X-inefficiency can be considered to be generally location-neutral, then one can see the essence of the construction of an ES supply network as pursuing the complementarities between a TNC's OAs and a host-country's input LAs. If a TNC's operation in a particular location had found *the* most productive LAs available to it worldwide (i.e. those that secure the most cost-effective use of the relevant OAs) and that TNC was making available a better package of OAs¹⁰ (i.e. the capabilities to get the greatest value from the country's input potentials) than could any other firm (including indigenous industry), then such an optimized complementarity would achieve the idealized level of efficiency maximization postulated earlier. In more routine terms, I can propose that competent decision-making, as TNCs adopt ES aims in generating global supply profiles, will bring

⁹ Variants of this could be performance of one stage in a vertically-integrated production sequence, assembly, or supply of particular intermediate goods.

¹⁰ Here appropriate OAs would not only involve the technologies and management capabilities to maximize productivity but also the best international market access (provided by the TNC's distribution network) in terms of current size, stability and growth potential.

about some degree of efficiency improvement in the ways indicated here.

Distribution

If the articulation of the efficiency issue could be seen as purely economic, then the logical follow-on is a more political-economic concern with fairness, justice or equity in terms of how the performance outcomes of TNCs (whether seemingly beneficial or problematic) is distributed. The premise here is that, since the performance of a TNC investment in a particular country reflects both the firm's OAs and the country's LAs, the distribution of the outcome should reflect in some fair way the respective contribution of these inputs. The provenance of distribution issues in early concerns that FDI¹¹ might, in some sense, exploit (in particular) host developing countries has widened into the suggestion that TNCs' positioning in globalization can increase inequalities between countries and within countries.

The persistence and stridency of debates about equity can be seen to reflect the impracticality of attempting to define what would be a *fair* distribution of the outcome from a particular TNC investment project, or even providing a meaningful summary of what that distributed outcome *actually* is (from an overall perspective). This allows for the intuitive assertion of reasons why a TNC, in particular, may be able to co-opt "unfair" benefits from investments that may, on other grounds, be effective and desirable. The problem of categorizing an accurate/fair distribution derives from the absence of anything approaching a competitive market price for many of the inputs to a TNC operation.¹² From the TNC side the intangible and

¹¹ It was, for example, suggested that imperfections in the markets for the separate elements of the FDI package negated the advocated possibility of "unpackaging" FDI and thereby allowed firms to earn monopoly rents on their technology, skills, etc.

¹² It is also unlikely that attempts to agree on imputation of *ex post* shadow prices within a formal analytical attempt to resolve distribution debates on particular TNC outcomes would achieve consensus.

highly firm-specific nature of many of their OAs leads to their internalized transfer and use, which precludes any form of even negotiated informed pricing of specific attributes. Whilst many host-country inputs (e.g. labour, energy, raw materials) will certainly be rewarded in terms of a transparent price, it is not always the case that the market in which this was determined operates competitively or is immune to policy-based manipulation, so that elements of distributional unfairness are again possible. When a significant aspect of the viability of an operation reflects host-government policies that pursue specific objectives (variants of import-substitution industrialization) at the expense of permitting rent-seeking TNC behaviour, then any idea of fair “pricing” of benefits is again meaningless.

Though the “stakeholders” in a TNC operation may be able to hold clearly formulated views of aspects of its successes or failures, these would represent elements of very differently composed objective functions. For a TNC, a particular affiliate would be expected to make distinctive contributions to the current profitability and/or longer-term competitive development of its overall *global* operations. It is central to my analysis that this contribution can take various forms at any point in time, and also be open to change over time (so that processes of evolution can be accepted as a reason for temporarily compromised performance). For a host country, the varied expectations from TNC participation may include improved supply to local customers (quality and/or price of goods and services), improved conditions for local inputs (degree of usage and levels of rewards), improved achievement of short-run government policies (e.g. taxation, industrialization, trade balance) and the provision of significant impetus to longer-run objectives in terms of sustainable growth and development. Under these (essentially bounded-rationality) circumstances, a particular investment may be deemed satisfactory by both “partners” and allowed to progress in an orderly fashion (i.e. without unanticipated strategic repositioning by the TNC or additional performance requirements from the host government). This does not imply the presence of any form of aggregated measure of the overall level of achievement of the operation or,

therefore, of any possible way of specifying what was the *actual* division of the outcome between TNC and host-country interests.

Thus, the comparison of actual distribution outcomes with idealized fair outcomes presents a doubly infeasible calculation, precluding empirical verification of suggested injustices driving aspects of globalized inequality. Nevertheless, the arguments demonstrating the implausibility of resolving distribution issues in practical terms also provide equally precise reasons for a persisting concern, by underlining the presence in determining the basis for a successful operation (i.e. one satisfying the needs of interested parties enough to survive) of various market imperfections and policy distortions. These factors also indicate that in many cases distribution is, in practice, strongly influenced by explicit or implicit bargaining processes between TNCs and host locations (countries, regions or, increasingly, creative clusters) in which the parties seek to leverage the unique characteristics and capacities of their inputs (i.e. in effect claim monopoly prices for their OAs or LAs respectively). Once again, a crucial factor determining the content and concerns of such bargaining situations is the strategic positioning of the operation, in terms of perceived contributions to wider objectives of both the TNC and host country.

The focus of much of the practical intuitive assertion of inequities in globalization is, in effect, ES behaviour by TNCs. In its most contentious form, one can see an ES strategy as TNCs using undifferentiated cost-effective host-country inputs to enhance the international efficiency of supply of highly price-competitive goods embodying standardized technology and low-skill production processes. The potential for distributional concerns here reflect a case of asymmetrical information, in the sense that TNCs may be able to project superior knowledge of key factors in a bargaining process. In terms of LAs, once a host-country is not able to assert convincingly any strongly distinctive qualitative characteristics to its inputs, a TNC may then be in a position to claim a more informed comparative knowledge of rival economies and thereby suggest a potential for competitive location (or relocation) of investments

elsewhere. Such an invocation of the ‘footloose’ option represents the bargaining strength accruing to TNCs from operating a global-network strategy, both in terms of a manifest flexibility and an ability to assert plausibly possession of better information on comparative productivity than would be available to an individual host-country government.

Though the OAs used in much ES behaviour are in fact likely to be routine and not significantly differentiated qualitatively between competing firms, the ability to assert otherwise may still be projected by TNCs. This, of course, reflects the familiar market-failure argument for intangible or knowledge-based competitive attributes, in that TNCs will not reveal the detail of the technology or commercial information central to their bargaining position. Something that may, indeed, differ between potential investors and that can therefore be “spun” strongly in bargaining processes is the market to which export-oriented ES supply may have access, both in terms of current size and growth possibilities. If such elements of asymmetrical information are convincingly projected by TNCs, they can assert both that their OAs can better develop competitive potentials of a host economy than could those of rival firms, and that other locations are available to them with equal or better supply potentials (LAs). This, it could be suggested, would then lead a host location to concede unnecessarily beneficial terms to a TNC, imparting a bias to the distribution process.

A generalized capacity of TNCs to exercise bargaining advantages in ES situations would lead to excessively generous incentive packages (fiscal benefits in terms of tax breaks and subsidies) and downward pressure on input prices, with a notable emphasis on low wage-rates and perhaps repressive employment regulations and conditions. One distributional outcome of this would be worsened *international* inequality, in that enhanced benefits would normally accrue to interests in more developed countries (shareholders and home-country governments benefiting from TNCs’ profitability gains, and consumers from lower prices) at the expense of reduced benefits in host

developing countries. Furthermore, where TNCs benefit from ES relocation of labour-intensive supply, this normally places downward pressure on employment levels and conditions in the home country and other countries in the supply network. Unless governments activate effective adjustment mechanisms in these countries (as required in the positive efficiency scenario), the overall outcome would be a deterioration in global income distribution in terms of a worsened situation for low-skilled labour to the benefit of capital, skilled labour and higher-income consumers.

In the light of my association of the traditional (import-substitution) contexts for MS with pervasive inefficiency, one may here be dealing with the distribution of losses as much as gains, though these would normally be interpreted as the costs of protectionism rather than wilfully perverse TNC decision making. From a TNC point of view, it might still logically impute profitability gains to a particular MS investment, where these represent the difference between profits now earned through local production and those that could have been earned through continued external supply under the implemented levels of protection. It might also feel a clear awareness of losses, however, by comparing the counterfactual (often “once factual”) profitability of supply under free (or freer) trade with the lower profitability of the current MS production.

An MS involvement can also be interpreted as providing forms of second best benefits to a protected economy. In the case of rising generalized protectionism in developed economies (a counter-globalization scenario), TNCs’ MS investments may provide offsets to declining employment levels (due to declines in export sectors), though the protected jobs created are likely to be inefficient and insecure. In import-substitution industrialization strategies, MS investments create jobs that would not otherwise have emerged but, as noted in the previous section, these would be closely associated with an inequitable internal income distribution and usually be too small in number to be part of a sustainable and balanced development process. Where an MS operation is implemented successfully, this implies

welfare gains for local consumers compared to the alternative of importing under protection. They may also be aware, however, of welfare declines compared to importing under a freer trade regime. Profitability in a MS affiliate should generate tax revenue for the local government, though this will be offset by some loss in the tariff revenue from any imports that would have continued without the local production. Where a government is actively pursuing MS investments, tax rates may be subject to bargaining, probably in conjunction with levels of effective protection (covering tariff levels for both the final good and any imported intermediates).

Though less clearly established as a matter of public concern, our perception of globalized knowledge seeking (KS) behaviour in TNCs can certainly also provoke distribution issues (Pearce, 2002; Pavitt and Patel, 1999; Narula, 2003). Thus, where a KS operation in a particular location achieves success (in terms of securing original scientific results from a precompetitive basic/applied research project or the competitive finalisation of a significant new product innovation), this is likely to reflect its position in *two* technological and creative communities: that of the host country (its national system of innovation – NSI) and that of a TNC group. The selection of a particular location for a pure-science research operation will reflect its established reputation and capacity in an area of investigation of strong interest to a TNC (i.e. one with a *potential* to provide new technology capable of driving innovation in the firm’s industry). Similarly a product mandate affiliate with innovation responsibilities will emerge where a TNC accepts such an operation’s capacity to leverage distinctive local creative capacities (scientists, technologies, market research insights, perceptive engineers, dynamic entrepreneurial management) to complete and operationalize the development of new goods. However, a presumed ability to use these attributes of an NSI more effectively than could local industry (an aspect of *efficiency* in innovation) will depend on the application of complementary inputs from a TNC. In the case of basic/applied research a TNC is likely to provide additional funding and, perhaps more significantly, new scientific questions and complementary

scientific knowledge that enrich the perspectives and potentials of this element of the host-country NSI. The localized product mandate innovation may also be supported by supplementary inputs of technology, engineering expertise and market-research insights from elsewhere in a TNC group.

On the one hand, this suggests that TNCs' globalized approaches to knowledge-based competitive progress can enrich a host-country's NSI, both in terms of its scientific capacity and its ability to operationalize successfully creative potentials. But particular KS successes are normally seen in terms of their networked positions by TNCs, and sequential benefits may therefore accrue elsewhere in the group's operation (rather than moving "horizontally" within the originating NSI). Thus, exciting new scientific results from a particular basic R&D lab are most likely to move forward towards commercial potentials when possible synergies with other results and technologies in other locations can be realized. Therefore, such results may flow out of the country in a raw-science state, and have no further local effects. So such successes may well secure further research projects for the TNC laboratory, but will not have benefited the immediate competitiveness of the host country. Similarly sustained appropriation of the rewards of successful new product development in a mandate affiliate is not guaranteed. Though the innovating affiliate is likely to initiate production of its new product (and thereby secure early high-value export trade), the international success of the good may soon lead to the sharing of supply responsibilities with other parts of the group network (for ES or MS reasons), again limiting the benefits a host country receives from its contribution to the competitive enhancement of the TNC.

Sovereignty

Here, I briefly review selected aspects of the more politically-oriented concerns with the ways that economic globalization might undermine the sovereign powers of governments. This could involve both constraints on the ability to secure the intended results from implemented policy (e.g.

monetary and fiscal) and restraints on governments in terms of even the meaningful formulation of policies to pursue desired aims in certain areas (welfare and social policies). In general terms, the theme of such sovereignty concerns is that the vast opening up of global markets for, especially, capital, technology, skilled labour, intermediate goods and final products and services, places many governments in a situation of international policy competition. TNCs can then be seen as distinctive contributors to such sovereignty concerns, partly because they are major players in many of these markets and partly because they often, in practice, avoid such arms-length transactions with internalized transfers between different parts of their global networks. Though generalized concerns about such aspects of TNC behaviour are longstanding, they become much more strident and precise with the growth of ES networks. This reflects both the inherent higher levels of intra-group transfers within such integrated supply programmes and the ability to leverage the internally-competitive flexibility of their networks in negotiating with host-country governments (with, therefore, concomitant distribution implications).

The classic illustration of TNCs' scope to use intra-group transactions to undermine the effectiveness of a particular host-country policy is, of course, the transfer pricing of intermediates. Here, the prices charged for transactions between parts of a TNC group¹³ can be set at levels to influence the extent of reported profits in a particular location, so as to minimize the payment of corporation tax in high-tax locations and, thereby, maximize global post-tax profitability. A country that persists with high tax rates may then get limited revenue from any international firms (domestic as well as foreign) within its economy. Alternatively, a country with high levels of TNC participation may have to abandon any intention of implementing tax rates that are out of line with those acceptable to those firms as being in line with global norms. Fiscal policy thus becomes

¹³ This can include physical goods in the form of components, intermediates in vertically-integrated production processes and final products, and also cover intangibles in terms of royalty rates for technology, fees for management services and so on.

constrained by the international positioning of a country's industry.

Governments may also find that attempts to attract inward investment in order to generate improved employment opportunities for their labour supply may then constrain their ability to influence the quality of jobs and to implement other aspects of welfare policies. Here again, TNCs are able to play on the footloose potentials of a range of potential locations for their more standardized production processes, where the discriminating factor derives from costs rather than any distinctive qualities in inputs. Then, minimum wage legislation, setting of particular standards for workers welfare, permission of active unionization, and general attempts to determine employment conditions above levels that appear to be available elsewhere, can be presented by TNCs as seriously compromising the "natural" value of host-country labour. As an extreme, it is sometime suggested, TNCs may even project suspicion of the competitive implications of social democratic publically-financed welfare and social programmes as indicative of a climate unsympathetic to business interests. In the same way, any attempts to increase levels of business regulation in general may lead to threats of relocation by TNCs.¹⁴

Growth and development

If the generic issue of *efficiency* was concerned with the purely economic matter of how effectively a fixed stock of productive capacities (OAs of TNCs and LAs of host countries) was utilized at a point in time, I can now complete the evaluation framework with the complementary issue of how the expansion of such capacities can support *growth and development*. This

¹⁴ There may be an important paradox here. Thus it may be felt that the benefits of globalization cannot be fully and fairly achieved without adequate adjustment mechanisms (and welfare-support systems) operated internally by *national* governments. But the bargaining postures of TNCs (as potentially positive agents in globalization) may oppose or constrain the ability of governments to fund, or perhaps even to advocate, the forms of interventionism involved.

then broadly relates to the capacity of TNCs' globalized pursuit of knowledge seeking (essentially the aim of regenerating their OAs) to play a role in the creation of dynamic sources of comparative advantage in host locations. Central to the investigation of such possibilities is the acknowledgement that, from the point of view of TNCs, growth and development means changes in LAs. Thus development can be seen to manifest (but also, of course, to pursue) changes in host-country market size and characteristics, changes in input prices and productive capacities, changes in infrastructure and policy stances, and the increasing emergence and importance of a distinctive science base and research capacity.

Our analysis of TNCs' strategic motivations can indicate four possible responses to changing location characteristics of economies in the processes of development (Pearce, 2001). Firstly, footloose *closure* of existing ES affiliates as increasing wage rates and other input prices undercut their cost-effective position in the TNC supply network. Secondly, the *upgrading* of an affiliate's position in a supply network, by co-opting the higher productive potentials of, in particular, increasingly skilled (albeit also higher-cost) labour into production of more technologically-sophisticated higher-value-added elements of a TNC's existing product range. Here a TNC transfers the use of more technically-advanced and quality-competitive OAs into a particular affiliate/country, replacing the more standardized ones originally used there (which are then, indeed, reapplied – in the footloose manner – in other countries, which, in effect, can replicate the original LAs).

Thirdly, TNCs may use their operations in a particular country to address the more forward-looking strategic aim of extending their competitive scope by drawing local creative resources (also, obviously, part of a country's key developmental potentials) into the innovation of new products. Here, product mandate operations now seek to generate and activate new OAs for their group in a KS manner, rather than apply existing OAs in pursuit of MS or ES aims. Fourthly, as countries generate increasingly strong and distinctive science bases and research

capabilities, as part of their pursuit of sustainable longer-term growth, these too may become attributes (more intangible forms of LA) attractive to the KS strategies of TNCs. Thus, the fully-developed pursuit of strategic competitiveness (Pearce, 1999b) in TNCs would recognize the need to investigate quite systematically those sources of precompetitive scientific progress (basic research) that have the potential to fuel the more radical long-term evolution of their industry's core technologies, and also perceive that increasingly these sources can be dispersed in a number of separate environments (specific creative clusters as well as more traditional NSIs). The relation of these last two strategic responses in TNCs to growth and development will be elaborated below. First, however, I review how they might emerge from the traditional (MS/ES) strategic positions in TNC affiliates.¹⁵

It is in the nature of effective MS affiliates to build up knowledge of aspects of their local economies, in the process of adapting existing products and processes so as to maximize the profitability they can generate from their TNCs' established sources of competitiveness. Sustained embeddedness in a country where development eventually begins to individualize significantly local tastes, skills, technologies and scientific capabilities would be quite likely to lead ambitious MS affiliates to seek to internalize the elements of locally distinctive creative scopes towards the aim of accession to product mandate innovation. It is likely that, in practice, little of this mode of localized product development occurred during the earlier phases of MS operations. Thus the need to refocus import-substitution MS affiliates may have mainly occurred before very many host countries were strongly demonstrating such creative/knowledge

¹⁵ This is not to presume that such KS activities can only emerge out of antecedent MS or ES operations. Production affiliates could be set up as product mandates *ab initio* and, perhaps as often as not, basic/applied precompetitive research laboratories may emerge independently of any (past or present) supply facilities. Nevertheless, it is generally plausible that the familiarity with, and interpretation of, a location's KS potentials may be conditioned by the presence and form (MS or ES) of well-established operations there.

potentials, and also before restructured TNC supply networks became systematically amenable to the incorporation of KS/product mandate operations.

More realistic possibilities may be implied, however, within the more contemporary, innately exploratory, MS operations through which TNCs seem to build their bridgeheads in emerging European economies in transition (Manea and Pearce, 2004a). Here, these affiliates have a tendency, quite early in their operations, to seek to individualize their competitiveness in CEE markets by generating distinctive additions to their TNC group's established product range, through the substantial competitive development of existing local goods and the adoption of local technologies. The more original and competitive of these new goods may then be found to have considerable potential for export to the parent TNC's more important existing markets (notably Western Europe). It may, in fact, be the case that, whereas attempts to build-up new cost-efficient export-supply (ES) facilities in CEE economies may have been constrained *inter alia* by the political skills and influence of those existing Western European units that they might usurp, the export of newly-derived goods would be easier because they do *not* seem so clearly competitive with existing interests in the established network. Ultimately CEE operations of TNCs may enter wider group supply-networks on the basis of KS creativity rather than ES cost-efficiency. This would then also be likely to provide a more valuable and more sustainable contribution to the development and growth of these transition economies.

As already observed, the purely resource-allocative interpretation of ES operations precludes any form of endogenous dynamism. A very specific set of host-country LAs are activated in a highly competitive manner by a very specific package of TNC OAs. This projects an entirely group-positioned role, with no scope for affiliate-level individualism or ambition and, therefore, no allowance for forward-looking creation-oriented expenditures (R&D; market research). In fact, the heterarchical (Hedlund, 1986, 1993) TNC views its network as

inherently flexible and as seeking dynamic sources of competitive evolution as much as static efficiency. Thus, rising input prices may not be automatically interpreted as a reason for closure, in a one-dimensional decision process, but rather as a signal for a re-evaluation of the particular location and the competitive positioning of the affiliate in it (Pearce, 2001; Birkinshaw and Hood, 1998; Birkinshaw, Hood and Jonsson, 1998). This would, in turn, allow increasingly ambitious and confident local managers to assert the developmental possibilities that they can derive from their economy's widening qualitative potentials. As noted above, this would initially involve the employment of increasingly distinctive and productive local inputs in the supply of more sophisticated and technologically-advanced parts of a group's product range. In some cases, this systematic process of affiliate evolution, involving an increasingly committed interpretation and cooption of the expanding host-country capacities, can eventually reach the point of using local *creative* capacities to *develop* new parts of a TNC's product range. This process of creative transition (Papanastassiou and Pearce, 1994, 1999) embeds the affiliate more profoundly in a country's development, by basing its supply operations around, in effect, unique locally-generated OAs, rather than persisting dependence on those from elsewhere in the group.

Product mandate (PM) affiliates can be considered to make a positive contribution to development when they secure better performance from those local creative attributes that they access than indigenous enterprises would otherwise have been capable of doing. Thus, a PM affiliate emerges within a TNC group in reflection of its ability to internalize distinctive host-country competences in human capital (talented scientists, creative engineers, innovative marketing personnel, entrepreneurial and ambitious managers) alongside favoured access to existing stocks of indigenous technology (either already embodied in established products or awaiting commercial development) and unique elements of research capacity in the science base (e.g. areas of world class specialization in local universities). Policy support by governments for the generation of such attributes

within a development programme will target specific aspects of broadly perceived growth. These may summarize as sustainable full employment across an appropriate range of skills, so as to support an internationally-competitive economy that is increasingly driven by logically-evolving sources of dynamic or created comparative advantage. A TNC's strategic expectations from a PM affiliate (normally the creation and supply of competitive new goods to international markets) are clearly consistent with a host-country's normal developmental expectations. The precise forms of host-country benefits that emerge, and the ability of PM operations to generate them, can then be seen to remain strongly influenced by the affiliate's intra-group positioning.

One aspect of this is that the developmental aims of a PM (or, importantly, of an advanced ES affiliate that is seeking the move to a systematic creative KS role) will be formulated in the light of its familiarity with the established core competitive capabilities and aims of the group (existing OAs). This may give it a superior capacity, compared to local enterprise, to detect and evaluate emerging innovation-supporting potentials (knowledge-related LAs). Nevertheless, PM affiliates will often need to secure their access to these creative inputs in competition with local firms. Their ability to do this may reflect their ability to offer higher rewards, along with a more stimulating creative environment. Once again, this will reflect a PM's ability to leverage its access to group-level OAs. Here, the core established technologies and skills of the group are still likely to be relevant, often providing an affiliate with a secure and familiar platform from which to assimilate the distinctive local inputs and build the idiosyncratic contributions of its own innovation process. Similarly, even where a PM affiliate takes responsibility for key aspects of how its own products are marketed internationally, it is likely to receive considerable benefits (compared with an alternative indigenous product innovator) from access to a TNC's global distribution network and established trademarks and reputation.

PMs can be seen as an embedded element of development since they extend a country's competitiveness through the operationalization of new skill and knowledge scopes generated by investments in education and training and scientific research and technology programmes. The most direct manifestation of this may be higher levels of higher-wage employment, improved foreign-exchange earnings and higher growth rates, which can then generate (at the macro level) capacity for further public investment in resource improvement. Within the purview of evolutionary economics, a successful PM generates its own sources of developmental momentum. Thus, those sources of local creative competence (personnel employed, research collaborations, etc.) that are co-opted because of their current expertise will exercise this in conjunction with TNC technology and insights and, in the processes of contributing to immediate (product development) success, also increase their own tacit knowledge. This may not only be a source of evolutionary impulsion within the PM (bases for further innovations) but also a new and distinctive (because partly conditioned by TNC inputs) element in the country's creative scopes. It can also be observed that the more successful a PM is in its *developmental* objective, the less need there is to be concerned with the potential *distributional* problem (noted in the relevant section) that the TNC might quite quickly relocate production of a new good to an alternative lower cost site. Thus, where the internal creative competences of a PM can sustain a strong developmental impetus, reflecting growing capacities of the host NSI, the freedom to focus on the higher-value-added innovation stages of the product life cycle and shed the more routine supply of maturing goods would be welcomed.

The other form of KS to be evaluated briefly here is the increased propensity of TNCs to carry out (through "stand alone" labs or collaborations with local universities) precompetitive (basic and/or applied) research in internationalized networks. The emergence of this reflects, firstly, an acknowledgement, by both firms and countries, that new scientific knowledge is likely to fuel the longer-term processes of development in the form of

the capacity to create radically new goods and services. Secondly, the decentralization of such research reflects TNCs' realization that different parts of a programme of investigation covering a range of different scientific disciplines can be beneficially spread across a number of different country's science bases. This reflects a globalized technological heterogeneity, in which particular countries have established positions of research leadership in particular areas of investigation.

The decision by a TNC to locate a particular facet of its precompetitive research agenda in a particular country is likely to strengthen further the relevant areas of that country's scientific capacities. One aspect of this is that the TNC's commitment of additional funding may permit, otherwise unavailable, expansion of work in these areas of specialization. Perhaps most significantly, the TNC participation may enrich this expansion by providing it with new challenges and perspectives. Thus, the TNC will locate a project in a country where the science base is highly qualified to carry it out, but with the aims of the research defined within the firm's much wider technology interests. Local scientists will exercise their defining capabilities (reflecting the technological heritage of their NSI) to address a rather different research agenda than would have been otherwise generated and probably in conjunction with new technology perspectives (those of the TNC). This may usefully offset an increasing agglomerative narrowing of the scientific specialization of the NSI, by adding new research dimensions that use its existing areas of leadership but widen them in logical and coherent directions (that would not have been provoked by local needs).

If TNC involvement may strengthen the facet of a country's NSI that pursues pure-scientific investigation through basic and applied research, it would not seem to have any potential to improve the inherently rather inchoate and ill-defined mechanisms through which new scientific results are perceived to provide real possibilities in commercial development. Two interlinked factors may in fact diminish the potential for the

achievements of TNC's basic research in a country to flow towards localized innovation. Firstly, in a way that might be more elusive for R&D units in a purely national firm, TNCs' basic research laboratories are often able to secure physical and organizational independence from their company's other operations in the country. Whilst this allows them to avoid undesirable distractions, in the form of "firefighting" short-term technical problems in production and marketing, it also limits the possibilities of providing direct technological inputs into the generation of developmental aims in the TNC's local operations. Secondly, complementing the previous point, the more or less predetermined destination for the results of successful pure research in these stand-alone units is out of the country, for some form of synthesis or co-development with the work of other similar TNC-group labs. Thus, the corollary of the strengthening of basic research, through access to new resources, challenges and technologies, is that this networked positioning implies the leakage of significant results into wider group-determined usage.¹⁶

TNC strategy, trade policy and new growth theory

One area of debate, developed within mainstream economics, that has strong synergies with lines of argument generated here, is that relating host country trade-policy regimes to differential implications of FDI for growth performance. The pioneering exposition of Jagdish Bhagwati (1978; 1985; cited in Balasubramanyam et al., 1996) combines two assertions: export promotion (EP) trade strategies will attract more FDI than import substitution (IS) strategies; and FDI made under

¹⁶ This leakage does not systematically counter the argument that these TNC labs can generally strengthen precompetitive research in the NSI. Thus important new scientific results take on public good characteristics within the TNC and, even when being applied and developed elsewhere in the group, also remain part of the enhanced competences of the lab that created them. This may then become a key part of the capacities of the lab that can attract further important research projects within the group network. Similarly, host-country scientists who participate in successful projects gain significant tacit knowledge in the process, which can have strong potentials to spillover into benefits to the wider local science base.

EP regimes has more favourable effects on growth than that made under IS policies.

The Bhagwati indictment of an IS environment for FDI encompasses many of the distortions and inefficiencies that have been here associated with the MS mode of TNC strategy, deriving primarily from tariffs and quotas on trade as the principal policy instruments. Summarized by Balasubramanyam et al. (1996, pp. 93-94), this includes “widespread distortions in factor and product markets” and “adoption of techniques of production widely at variance with the factor endowment of the economy”. Also, along with such promotion “of misallocation of resources [IS] also encourages X-inefficiency”. Furthermore IS “contributes to growth of income disparities” and “provides widespread incentives for rent seeking and directly unproductive profit seeking activities”. By contrast, Bhagwati’s characterization of EP as emerging from a trade neutral or bias free policy framework, “allows for a free play of market forces and the allocation of resources on the basis of comparative advantage” (Balasubramanyam et al., 1996, p. 94) that could be compatible with TNCs’ ES strategies.

In an empirical investigation, Balasubramanyam and Salisu (1991) validated Bhagwati’s expectation that EP countries would attract greater *quantities* of FDI than IS countries. Subsequently, Balasubramanyam, Salisu and Sapsford (1996) addressed Bhagwati’s *qualitative* assertions. Here, the effect of FDI on growth in a sample of EP countries was significantly stronger than for a sample of IS countries, with, in fact, FDI not being significantly related to growth for the latter group of countries. Furthermore, in the tests for the EP-country sample, FDI proved the strongest determinant of growth, “followed by additions to the labour force, followed by increased exports”, with increase in the stock of domestic capital least influential (Balasubramanyam, et al. 1996, p. 102). The authors interpret these results in terms of the tenets of new growth theory. This argument (Balasubramanyam et al., 1996, pp. 94-96) embodies two strands. Firstly, that FDI in principal has the capacity to add to a country’s endowment of those characteristics (human

capital accumulation and learning by doing; R&D and technology generation; scale economies; knowledge spillovers) whose endogenization in growth allows the social rate of return on investments to exceed the private rate. Secondly, that this potential is more likely to be realized when FDI is part of a country's EP industrialization strategy than an IS regime.¹⁷

Our interpretation of TNCs' strategic options is fully compatible with the explanation offered above, and can offer a supportive refinement to the second strand of Balasubramanyam et al.'s exposition. As suggested earlier, the sources of profitability for MS affiliates in a host-country's IS policy environment involve no guarantee (indeed limited likelihood) of the transfer of appropriate technologies or human capital capabilities, in the sense of being those that can become endogenized in host-country growth that is realizing the true potentials of local comparative advantage.¹⁸ By contrast, both ES and KS (PM innovation and R&D) strategies fit into EP policy frames, and do so in potentially sequentially-embedded (or endogenously-evolutionary) ways. Thus, ES transfers appropriate technologies that secure economies of scale and productive efficiency and inculcate (through training) the most relevant improvements in local human capital to support activation of growth around current sources of *static* comparative advantage. Then KS and product development activities of TNCs can supersede ES technology transfer by (within a properly formulated host-country development programme) *generating* new technology and sources of *dynamic* comparative advantage that embed these affiliates' operations within the core attributes of the growth process.

¹⁷ The ways in which the broad trade policy context, and particular details of its implementation, affect the extent and form of FDI in India and China, are evaluated by Balasubramaniam and Mahambre (2003, pp. 55-60).

¹⁸ As Balasubramaniam, Salisu and Sapsford (1996, pp. 96) observe "mere infusion of human capital and technology into a distortion ridden economy may neither lift the economy to a higher plane nor alter the slope of the production function. It may, instead, merely serve to redistribute income in favour of the new agents of production."

Conclusions

This article seeks to investigate the use by TNCs of two separable aspects of the globalizing economy of recent years. Firstly, the *institutions* of globalization have increased the freedoms of international transfer and motivated the opening of national economies. Secondly, the *processes* of globalization have often enhanced the rate of change of the characteristics of national economies in ways that increasingly respond to external challenges and potentials. The differential strategic imperatives of heterarchical TNCs are seen as inherently interactive with the dynamic diversity inculcated within economic globalization. The analysis has indicated two positive *potentials* that can derive from the globalized context for the TNC/national economy interface. Firstly, the efficiency seeking motivation can support countries' moves towards outward-oriented industrialization based on activating sources of static comparative advantage. This can not only provide an initiating impulse to national economic growth but improve global resource-allocative efficiency. Secondly, TNCs' expanding knowledge-seeking motivation can both enhance the competitive application of a country's creative attributes (notably in localized product development) and also become embedded in the further enrichment of these technology- and skill-related sources of sustainable growth.

Since the suggested positive efficiency and development potentials are predicated on TNCs' beneficial leveraging of various differences between national economies (or sub-regions thereof), it is logical to emphasize also the continued responsibilities of national governments' policies within the globalization scenarios. One aspect of this is to ensure that the national economy is perceived as one whose existing sources of competitiveness are freely available for international strategic operationalization. Part of this would be a neutral trade policy stance in the sense of one that does not discriminate against export-oriented activity *per se*, and then allows this to emerge around the country's genuine sources of comparative advantage (i.e. eschewing any form of distorting export subsidization).

Complementing this, internal factor and other markets should also be permitted to allow resources to move into those industries that manifest international competitive efficiency. Then, from the development point of view, government policies need to accept the (desirable) transitory nature of a particular source of competitiveness (e.g. low-cost labour) and invest in the upgrading of human- and knowledge-capital through education, training and scientific research.

But these positive potentials are also predicated on TNCs' move to global strategies (predominantly encompassing ES and/or KS motivations rather than MS) that position individual affiliates within internationalized programmes and networks. Thus, for TNCs, success is defined in terms of realizing a desired objective in terms of contribution to the group's overall competitiveness, which may reflect very different priorities from those of a host country. Though TNC operations may often provide positive sum outcomes, how this is then distributed may be a cause of considerable concern. Central to this is the perception that unique firm-level competences and globalized competitive postures provide TNCs with considerable bargaining strength.¹⁹ This perception has often been manifest in the adoption of some variant of inward investment policy. Where countries feel themselves to be in a very competitive market for the types of FDI they believe will benefit them, they may seek to boost their attractiveness through the defensive offering of investment incentive packages. Or where countries believe they are capable of providing more distinctive attributes to TNCs, they may adopt a more proactive stance, targeting particular benefits through the imposition of various performance requirements. Both of these have clear distribution implications, with incentives surrendering (perhaps unnecessarily) possible benefits *ex ante* to secure investments and performance requirements (UNCTAD, 2003) aiming to ensure *ex post* that TNC operations behave in ways that provide explicit forms of

¹⁹ Once countries apply any form of measure to directly attract, or influence the behaviour of, TNC operations it can be considered that some form of bargaining power has imposed itself.

benefits targeted by the host country. Importantly, however, these measures may also affect the efficiency and development outcomes by potentially distorting investment decisions and the content of affiliate operations.

The bargaining stances affecting distribution may also be seen to have implications for national sovereignty, in the sense that policy positions are articulated specifically in relation to the needs and influence of external economic agents. The origins of this in the global options (and, therefore, flexibility) of TNCs can then be generalized into the concern that wider, essentially non-discriminatory, areas of national policy become constrained by a perceived need to attract TNCs and to secure particular types of performance from them. ■

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