Government policy responses to strategic rent-seeking transnational corporations

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This article examines government policies towards the foreign market-servicing strategies of transnational corporations (broadly, the choices that firms make between exporting, foreign licensing and foreign direct investment). It does so in a context that analyses both firm strategies and government policies as an attempt to appropriate rents in a world of imperfect markets and imperfect information. It examines both inward and outward foreign market-servicing strategies. Its conclusion assesses the possibility of effective government action in the modern complex world economy.

Strategic rent seeking by firms and governments

The main actors in the world economy are firms. Firms seek to maximize world profits and thus to appropriate the rents arising from their proprietary assets. These include technology, management, knowledge, organizational abilities and other internalized proprietary assets (Buckley and Casson, 1976, 1985; Magee, 1979). By denying others access to these internalized assets, transnational corporations (TNCs) earn rents that enable them to reinvest in the next generation of proprietary assets, or "ownership advantages" (Dunning, 1980), thus enabling a dynamic competitive path to emerge over time (Buckley, 1983).

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This process does not take place in a vacuum. Other firms are attempting to create proprietary assets through research-and-development activities (R & D), acquiring skills (including management) and bidding away assets from rival firms. Much of the game theoretical analysis of inter-firm rivalry takes the asset structure as given, but in practice a major part of strategy will be to bid away key resources from rival firms. Another major part of business strategy is to retain key assets by locking them into company structures (Buckley, 1983).

A further important part of the environment is the existence of national governments. Government policies play an important part in fostering and hindering the preferred business strategies of firms. A fundamental role of government is to seek to appropriate some of the rents earned by (transnational) firms. The interests of government are here twofold: to appropriate rents from foreign TNCs that have spin-offs for their citizens (political constituents); and to appropriate rents from their home country-based TNCs wherever they operate. These policies have wide implications for TNCs, for the operation of the world economy and for the spatial location of economic activity. The old description of government policies in a global economy as "the struggle for the world product" must be modified to the more accurate "the struggle for a share of the world's appropriable rents".

The classic case for government intervention rests on two conditions of market failure being present: monopoly and externalities. The argument from monopoly rests on the interventionist being able to enforce a price equal to marginal costs and thus to eliminate private rents. Even in this case, the result is not unequivocal because there is an argument that monopoly, via the reinvestment of these private rents, enables more rapid innovation than other forms of market structure. The innovation stimulating effect of monopoly is much disputed, but what is less open to dispute is the ability of monopolists (*qua* large firms) to spread the *results* of R & D (even if it is not actually undertaken by them) over the largest potential output. This might be a reason to tolerate a monopoly *after* an innovation.

In order to justify intervention, market failure must be associated with information problems, otherwise transaction costs would not prevent a market solution on the lines of the Coase theorem (the polluter pays). As we shall see, these informational constraints are crucially important for the possibility of effective implementation of government policies (Buckley, 1996).

The foreign market-servicing strategies of transnational corporations

The foreign market-servicing strategy of a firm is the set of decisions determining which production plant(s) should be linked to which specific foreign market(s), and the methods or channels through which this should be implemented. The three main generic types of strategy are: trade (exporting or importing); licensed sales (foreign licensing out, importing foreign technology); and foreign direct investment (FDI). The foreign market-servicing decision is a complex one, both theoretically (Buckley and Casson, 1985) and in practice (Buckley and Pearce, 1979, 1981, 1984, Buckley and Prescott, 1989).

Thus, on a cross-sectional, point of time basis, the total foreign sales (TFS) of a company is made up of exports (X), licensed sales abroad (L) and sales arising from FDI.

$$TFS = X + L + I$$

The amounts of these elements can be measured at a point of time, over time and in particular markets. It is possible to aggregate these elements at national level, using an ownership criterion for investment to give the total foreign sales of a particular country (Buckley and Prescott, 1989; Buckley and Smith, 1994). There is of course an inward analogue—sourcing into a particular market is made up of the sum of imports (M), sales arising from foreign licensees and the sales financed by inward FDI.

At the most simplified level, trade can be differentiated from the other two methods of foreign market servicing by the location effect, as the bulk of value-adding activity takes place in the home country, whereas the other two methods transfer most of the value-adding activity to the host country. Similarly, licensing can be differentiated from the other two forms by the externalization effect. Licensing represents a market sale of proprietary assets by a firm. In trade and investment, such activities are internalized (Buckley and Casson, 1976). Broadly then, the internalization and location effects separate the three generic forms of market servicing:

Internalization effect

$$TFS = X + L + I$$

location effect

In practice, these simple differentiations are highly complex. Cross-section analyses of market-servicing strategies are point-of-time snapshots of dynamic processes. The individual modes are often complementary, not substitutes. For example, FDI in a market often increases demand for the firm's products via a "presence effect" (Buckley, Newbould and Thurwell, 1988) which means that other products in the firm's range can be profitably exported. These elements, and the important fact that each of these modes of doing business abroad contains a wide variety of sub-modes, means that government policy towards foreign market-servicing strategies, both inward and outward, needs to be extremely well targeted and sensitive.

Government policies on trade, technology exchange and foreign direct investment

There has been a strong tradition of writing on government policy towards TNCs. Much of it, however, takes the TNC as monolithic and fails to disaggregate the effects, consequences and policy challenges of the different forms of foreign market servicing by the firm. It is argued here that a simplistic "firms versus governments" stance on political economy is inadequate, and indeed, dangerous in view of the differential effects of strategic rent-seeking by TNCs as exemplified by their foreign market-servicing stance.

Raymond Vernon's classic *Sovereignty at Bay* (1971a) argument posed the issue of the role of TNCs in the global economy in a particularly challenging fashion. In *Multinational Enterprise and National Security* (1971b), Vernon examines the "nature of the multinational enterprises" as: national contributors, national challengers, trojan horses, and as hostages. The issue of power versus sovereignty is always to the fore in Vernon's writings, and his work has been influential in setting the policy agenda. This article contends that Vernon's concerns can be better understood, and the application of each of these concepts (contributor, challenger, trojan horse, hostage) can be best understood, by putting the market-servicing strategy (inward and outward) explicitly into the policy matrix.

John Dunning's work has the notion of market failure very much at its core (see Dunning, 1993, pp. 313-314). Thus, his analysis is entirely consistent with the underlying premise of this analysis, that TNCs, as strategic

rent-seekers, will pursue consistent policies to achieve this objective and that rational policy responses from governments are required. John Dunning (1991) traced the development of government policy from confrontation to cooperation and, by tracing the type of market imperfection which he believes to be prominent at a given historical stage, implicitly derives rational policy responses. The current article is at once more crude and more sophisticated than Dunning's analysis. It is more crude in that it ignores interactions between government and TNCs (for the purposes of clear exposition); but it is more sophisticated in that it points to policy responses according to the type of rent-seeking strategy used by TNCs.

The nature of interactions between governments and TNCs is developed further by John Stopford and his various collaborators. John Stopford's early work (Stopford and Wells, 1972) saw governments as a constraint on the strategy of TNCs. A later study of *Britain and the Multinationals* (Stopford and Turner, 1985) saw the "new politics" emerging in which constraint became coexistence and eventually cooperation. This developed in *Rival States, Rival Firms* (Stopford and Strange, 1991) to the view that TNCs and governments might be colluding in order to acquire world market share. This article steps back from such interactions between governments and TNCs and sees governments as independent of firms. It is possible to develop the present analysis to take account of such perceived interactions, but this would require resetting the policy matrix which is set up here in a rational response mode.

It was shown above that the foreign market-servicing strategies of TNCs are dynamic, complex and sensitive to changes in the environment, including policy changes. Figure 1 shows the policy matrix at its most crude. It simply plots the three forms of foreign market-servicing strategy into and out of a country.

If one now returns to the discussion of government policy, one can begin to map policy decisions on to the various forms of foreign market-servicing decisions. The context of this discussion needs to be remembered: it is that government attempts to appropriate rents in a world of imperfect markets. Government thus has the task of designing a policy matrix which obtains a good share of rents from foreign TNCs and from home-owned TNCs wherever they operate. Governments thus require a clear vision of their strategic interest in rent-seeking before the design of a policy matrix can commence.

Figure 1. Foreign market-servicing options: inward and outward

	Trade		Technology trade		FDI
Inward	1	Imports	2	Technology Imports	3 Inward FDI
Outward	4	Exports	5	Outward Technology Licensing	6 Outward FDI

The national perspective on deriving rent in a world of TNCs requires attention to a rather more sophisticated matrix than that presented in figure 1. Each of the cells contains differentiated elements which may require policy adjustments.

In the trade cells (1 and 4), it is necessary to differentiate between final goods, intermediate goods and capital goods. Final or consumption goods do not form an input into the further production process, but intermediate and capital goods do. It may not therefore be in the best interest of government to limit the importation of intermediate and capital goods. Often, a policy of import substitution attempts to exclude final goods through tariffs quotas or non-tariff barriers in order to foster local industries (the so-called "infant industry" strategy). It may be necessary to allow intermediate and capital imports, however, as inputs into building up the infant. (In other words, a high effective tariff on final goods may require low—or zero—nominal tariffs on intermediate and capital goods imports into the production process.)

A variant on this theme is the strategic trade argument. From the point of view of the individual firm, exports can be a strategic weapon to gain access to a foreign market. When this is cast as a two-person game with national champions contending for a share of the international market, then government subsidies can alter the payoffs and under certain restrictive assumptions can lead to gains in national welfare, in the form of payoffs to individual firms of the home national ownership, in the post-subsidy game.

However, as Mark Casson (1990) pointed out, strategic trade policies suffer from the same difficulty as adversarial and business strategies: they can be imitated, and the results of the imitation can be disastrous. Classic strategic trade policy under which government subsidies "national champions" (Brander and Spencer, 1985; Krugman, 1987b) can provoke foreign

governments into matching the subsidies. This can result in escalation of threat and counter-threat, as each government guarantees the credibility of its national champion's threat to spoil the rival's market. Only when slow response or poor liquidity of the foreign rival causes it to exit the industry is a permanent gain likely to be achieved. The analogy with protectionist "beggar-my-neighbour" policies is strong. Whilst a subsidized or protected firm may sometimes gain, domestic consumers and taxpayers will normally lose. This explains rent-seeking lobbying for government intervention to protect or subsidize putative "national champions" (or infant industries).

This analysis has so far left aside the political feasibility of the "tax generally and subsidize specifically" policy combination. In the United States, this is severely constrained by the budget deficit, and in the European Union it is constrained by the lack of a powerful centralized body. In addition, observation suggests that the ability of governments to pick winners (national champions) is severely limited. Institutional failure may be regarded as greater than market failure.

In addition, Paul Krugman (1994) made a powerful argument that trade based on comparative advantage is a non-zero-sum game. It is from this viewpoint that he labelled the notion of national competitiveness as a meaningless concept. In reviewing the arguments based on externalities and strategic trade considerations for interventionist policies, Krugman (1987a) concluded that the optimal policy is so sensitive to technological and behavioural parameters that the results of intervention are uncertain even in areas where externality and monopoly arguments abound (e.g. semiconductors). The information available to government policy makers will be biased—not least by lying on the part of rent-seekers: "We have a sadder but wiser argument for free trade in a world whose politics are as imperfect as its markets" (Krugman, 1987a, p. 30).

Just as the division of trade into the simple "final, intermediate and capital goods" categories complicates the issues of government policy, so one should look more closely at licensing. Two categories of technology trade could, with profit, be differentiated. These categories concern product and process technology. It can be argued, by analogy with trade, that process technology represents an input into the production process, whilst product technology (brand names etc.) aligns with finished product. In fact, this is far too crude an assumption and it serves to illustrate further the complexities of government intervention in a globalizing world economy. Even with this crude bifurcation of technology licensing, government policy would

seek to encourage the out-licensing of product technology and discourage the out-licensing of process technology whilst stimulating the acquisition of foreign process technology but dampening demand for foreign product technology. This would ensure the appropriation of rents from brand names and product technology exported whilst reducing the rent paid for foreign product technology. The inputs of process technology into domestic activity would not be discouraged. Again, this policy mix illustrates the need for micro-intervention and highlights the huge information needs required for an optimal policy mix.

Finally, one needs to examine FDI. The best way to characterize both inward and outward FDI is by motive underlying an investment. Three key motives can be distinguished: market-seeking investment that attempts to use investment to penetrate foreign markets and maximize market share; resource-seeking investment aimed at securing supplies of key inputs, notably natural resources; and efficiency-servicing investment that attempts to reduce the overall costs facing a TNC, notably in seeking non-tradable inputs, the most important of which is labour.

Again, strategic rent-seeking issues are to the fore in examining company strategy and government policy. It might be argued that outward market-seeking investment might be encouraged whilst inward market-seeking investment might be penalized. This would serve to allow domestically owned firms the maximum access to market shares abroad and at home, and therefore to available rents. Resource-seeking investment might be encouraged in an outward direction, to secure supplies for national firms, but inward resource seeking might be penalized. The third motive for FDI—efficiency seeking—poses problems for the rational rent-appropriating government. It may be expedient to limit or penalize outward efficiency-seeking investment *if* the government believes that a domestic investment is a feasible alternative. However, if that is not the case, then to restrict outward FDI may have negative effects on the ability of home country TNCs to accumulate rents. Inward efficiency-seeking investment may be regarded as increasing the welfare of citizens (by increasing wage rates, providing employment, increasing exports), but there have been policy proposals in various countries to restrict such investment in favour of higher order (higher value-adding) activities, but again the substitution possibilities are largely unknown. This section on FDI has shown that the interrelationships between the particular foreign investment and the rest of the economy need to be known in order to design an optimal policy. In particular, the vertical

Figure 2. Foreign market-servicing options by subtype, inward and outward

	Trade	Technology trade	FDI
	1	**2**	**3**
Inward	(*a*) Final goods imports	(*a*) Product technology imports	(*a*) Market-seeking inward FDI
	(*b*) Intermediate goods imports	(*b*) Process technology imports	(*b*) Resource-seeking inward FDI
	(*c*) Capital goods imports		(*c*) Efficiency-seeking inward FDI
	4	**5**	**6**
Outward	(*a*) Final goods exports	(*a*) Product technology exports	(*a*) Market-seeking outward FDI
	(*b*) Intermediate goods exports	(*b*) Process technology exports	(*b*) Resource-seeking outward FDI
	(*c*) Capital goods exports		(*c*) Efficiency-seeking outward FDI

(value chain) relationships are important in the firm's strategy and therefore in rational policy responses (Casson, *et al.*, 1986).

The arguments of this section are summarized in figure 2 which builds upon figure 1 by differentiating types of foreign market-servicing modes within each cell of the matrix. Trade is divided by stages in the production process, technology transfer by type (product and process) and FDI by motive. A complex array results.

A government policy matrix

After this analysis of modes of foreign market servicing subdivided by type, one can suggest a rational government policy matrix. The matrix (fig. 3) is coded by policies either + (encourage, promote, stimulate, subsidize) or – (discourage, prevent, reduce, tax) or ? where the policy depends on other variables. As can be seen, the rational policy array is formidably complicated.

If one examines the array in figure 3 cell by cell, one can assess each item and the policy directed to it. Beginning with cell (1) inward trade, one can observe that conventional government policies prefer to discourage the import of final goods, as they are regarded as competing with domestic products and diverting value-adding activities abroad. The classic arguments

Figure 3. Foreign market-servicing options, by subtype, inward and outward, with policy directions

	Trade	Technology trade	FDI
	1	2	3
Inward	(*a*) Final goods imports (-)	(*a*) Product technology imports (-)	(*a*) Market-seeking inward FDI (-)
	(*b*) Intermediate goods imports (+)	(*b*) Process technology imports (+)	(*b*) Resource-seeking inward FDI (+)
	(*c*) Capital goods imports (+)		(*c*) Efficiency-seeking inward FDI (?)
	4	5	6
Outward	(*a*) Final goods exports (+)	(*a*) Product technology exports (+)	(*a*) Market-seeking outward FDI (+)
	(*b*) Intermediate goods exports (?)	(*b*) Process technology exports (-)	(*b*) Resource-seeking outward FDI (+)
	(*c*) Capital goods exports (?)		(*c*) Efficiency-seeking outward FDI (?)

for protectionism can be trotted out in defence of a policy that restricts final goods imports. The same arguments do not apply to imports of intermediate goods and capital goods, which are regarded as inputs into the domestic production process. This is the core of the argument for "effective protection": protecting domestic value-adding activities at a high level by having large tariffs on output and low tariffs on inputs. It is not, of course, always possible to identify inputs and outputs, and the policy of "cheap food" can be justified by regarding food as an input into the production process (via the labour force) just as well as it can be justified on welfare and consumption grounds.

Cell (4) examines exports. In general, exports might be regarded as a "good thing", earning foreign exchange to enable the purchase of imports for investment or consumption purposes. Final goods exports are clearly a benefit to a nation, but is this necessarily so in the case of exports of intermediate and capital goods? Exports that are an input into foreign production

processes may be considered to embody competitive advantages that foreigners can employ. This is an argument analogous to those used to justify prevention of technology outflows.

Cells (2) and (5) concern technology trade. Imports of product technology might be disfavoured by governments as against process-technology imports. Product technology, satisfying final demand, may be seen as less acceptable than process technology, seen as a key input into the production process. A clear example of this is given in the recent liberalization of India's technology-importing sector. "The Bharatiya Janata Party welcomes foreign investment in infrastructure industries, though not in junk-food businesses."[1] Although the final objective of government policy is presumably the satisfaction of consumer demand, politicians and bureaucrats will argue that it is their job to balance investment and consumption, and to postpone present consumption in favour of investment. Control of inward technology flows and FDI is one rather crude means of effecting such a strategy. Process technology can be more easily identified with investment and product technology with (frivolous) consumption. Mirror-image arguments can be put with regard to technology outflows. Process technology enables foreigners to copy, adapt and even improve on the technology employed. Product technology has fewer strategic concerns.

These issues are bound up with concerns about the *pricing* of technology. Because the value of technology is difficult to evaluate, there can be disputes about the appropriation of the rents involved. Constantine Vaitsos (1974) argued that technology recipients (generally developing countries) will overpay for technology imports, because they do not have access to full information on its value. Mark Casson (1979) argued that licensees face great information barriers in appropriating the full return from their innovations. Assymetries in information can thus play a distorting role in discussions of policies on technology transfer. Moreover, market-based rules may be of limited use in situations where, by definition, monopolies exist. It would be possible to add a row to each of cells (3) and (6), covering "technology-seeking FDI". There are many instances where the motivating factor for FDI is to gain control of a particular element of foreign technology. It is possible to argue that foreign control of technology is intrinsically bad from a strategic point of view for any nation-State. But, just as all people have their price, so too do all intangible public goods ("national control", "strategic interest", "domestic security"). So, the question really is: what

[1] Jay Dubashi, Bharatiya Janata Party, letter to *The Economist*, 2 September 1995.

is the correct price for technology, with the appropriate collective consumption good (security, control) factored into the price?

Strategies on inward FDI too, seem to vary according to the type of investment. Market-seeking inward FDI might be regarded as negative in its impact on the rent appropriations of the domestic economy because it provides competition with domestic firms. Here, the debate is between those who favour national champions, firms that are deliberately allowed to build up a domestic monopoly or considerable market share (and are even explicitly or tacitly encouraged to do so), versus those who believe that free competition, contestability of markets and non-interventionism are preferable. This leads to huge issues of the conflict of economic philosophies underlying policy.

Resource-seeking inward DFI has traditionally often been discouraged except where the technology, marketing and distribution skills of TNCs have been overwhelming arguments to host country governments. It is usually host country governmental bodies that are the key decision makers in this area because control of raw materials is frequently their domain. The arguments for inward FDI *have* generally been overwhelming, and many governments have been willing to appropriate their share of rents by taxing the profits of foreign-owned TNCs. There are instabilities in such an arrangement, however. The record of extracture by vertically integrated TNCs (the oil majors, copper and aluminium companies, etc.) is fraught with political turbulence. The majority of recorded expropriations of TNCs is in the extractive sector, and foreign firms need all the political skills they can amass in these areas.

Efficiency-seeking FDI arises where TNCs are seeking to lower their total costs by locating activities in their least-cost locations. This often boils down to the search for the lowest efficiency wages (wages after taking productivity differentials into account). In mass assembly industries, the phenomenon of offshore production arises where the labour-intensive stages of production are set up in a cheap labour country. The key policy issue in these circumstances for the host country is: what is the feasible alternative? Because of the success of countries with a history as offshore bases (Singapore, Thailand, Malaysia), the answer to this question has shifted significantly over time. The ability of TNCs to transfer increasingly complex activities offshore has upgraded these facilities and, through spin-offs, buy-outs and local purchases, the host economies likewise. The dynamic, rather than static benefits of efficiency-seeking FDI to the host country have

swung the balance for host countries away from a policy of caution, towards a policy of welcome. The result is a struggle amongst potential host countries to attract inward FDI, and a transfer of the rent from such activities towards TNCs with activities that are relatively "footloose".

In the case of outward FDI, cell 6 suggests a bias in policy against outflows. The arguments here rest on a view of the alternative position: what would happen in the absence of the outflow? Is a domestic investment a feasible alternative? In the case of resource-seeking outward investment, it can be argued that there will not be a feasible alternative domestic investment as the firm concerned will be seeking resources unavailable at home for this reason, and for the reason that resources abroad will often be input into the domestic production process, outward resource-seeking FDI will be at least treated neutrally—and often actively (if covertly) encouraged. For similar reasons, market-seeking outward FDI may be viewed favourably by source country government policies. The market-servicing strategies of host country firms will often dictate a foreign location for their marketing and finishing operations. From the source country's point of view, the most effective location of these activities may stimulate jobs and total activity within their borders by increasing foreign market penetration; the loss of jobs overseas might be more than compensated for by increases in complementary (downstream) jobs in the source country. It would be difficult in these circumstances to second-guess the location decisions of TNCs. It is therefore in the area of efficiency-seeking outward FDI that the "alternative position" argument is likely to be invoked to support policies restricting outward investment. Investment-seeking cost reductions, largely through reducing labour costs, aimed particularly at unskilled labour, often provoke accusations of "export of jobs". There may be a case in specific instances, of there being a possibility of substituting capital-intensive production at home for labour-intensive production abroad, but much will depend upon the competitive position of the firm. If offshore production is undertaken in response to a threat, then the firm is unlikely to be able to go to the capital market to raise funds from a position of weakness. Moreover, after taking into account the cost of capital to the firm, a cheap labour location may remain the cheaper option. There is the further argument that location abroad of the labour-intensive stages of production allows the retention of the supporting jobs in the source country which would otherwise be lost if the firm were not allowed to invest abroad.

The key feature of figure 3 which needs to be noted is that there are pluses and minuses in each cell in the array. This requires a fine judgement

on the part of government and therefore a considerable amount of information. Second, although the majority of entries have an unequivocal plus or minus, many of these entries are contentious and depend upon a set of largely untested assertions rather than an almost equally plausible set of alternative assertions. Third, the array is bedevilled by relationships amongst the components. Vertical relationships, in particular, muddy the waters of unidirectional causality (Casson, 1985). Finally, the dynamics of foreign market-servicing strategies affect the whole policy set. The foreign market-servicing decisions of TNCs are constantly evolving. Firms switch from exporting to licensing and/or investment according to change in the environment, their cost structure and their evolving strategies (Buckley and Casson, 1981). Consequently, it is not only the direction of government policy, but its timeliness which is crucial. Badly applied, government policy can trigger a switch in the foreign market-servicing decision which can undo the effects of its intention (tariff jumping FDI—a switch from exporting to FDI—is an important example). To complicate the picture even further, it may be suggested that different policies are required with regard to different industries and different trading partners (within trade block versus outside trade block partners, for example).

Conclusions

Government policies towards rent-seeking TNCs will be influenced by three sets of considerations: the underlying philosophy determining the level of intervention in the economy; the perceived national interest, as expressed in the balance of inward/outward trade and investment activity; and technical issues in policy implementation.

The underlying philosophy of governments towards TNCs differs markedly between States, but seems to have conformed to a general trend that runs from government policy as a *constant* to policy as *conflict and bargaining* to policy as *cooperation* (Boddewyn, 1992).

The balance between inward and outward flows (particularly of FDI) is also a key determinant of governmental policy posture. The virtue of this analysis is that it includes outward FDI (see UNCTAD-DTCI, chapter VII, 1995) as within the policy compass.

There are a number of technical issues of policy which are highlighted by this analysis. Amongst the most important concerns are: the balance within each cell of the policy matrix, the timing of policies with respect to the dynamics of firms evolving market-servicing strategies and the links between different elements in the firms' value chains which severely complicated a rational analysis of the impact of policies.

A fairly simple analysis of modes and submodes of the foreign market-servicing decision yields a highly sophisticated policy matrix. One must ask the question as to whether governments (any government) have the information and the skill to implement such a policy set. This is further complicated by the notion of timeliness. Policies must be designed not for a static point of time but in a situation where market servicing and sourcing policies are continually and rapidly evolving as the world economy becomes globalized.

Broadbrush policies run the risk not only of missing the target, but actually of working in a direction opposite to their intentions. For instance, any broadbrush policy within *any* cell of the matrix given by figure 3 will have both negative and positive policy consequences. Micro-interventionist policies (aimed at a subset of a cell in figure 3) require careful targeting and a vast amount of information.

The rent-appropriation model of the foreign market-servicing strategies of TNCs calls for a careful reappraisal of government policies. It is capable of extension by inputting alternative assumptions, for instance, on interactions between individual policies of governments and the second order responses of firms. The development of this framework enables a clearer policy debate to take place on the activities of TNCs in an increasingly complex, globalizing world economy. ■

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