REVIEW ARTICLE

Recent books on transfer pricing: a review article

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Introduction

Like the late 1970s,[1] the early 1990s will no doubt be remembered as a period in which tax rules on transfer pricing for transnational corporations (TNCs) were subjected to substantial reappraisals. As a matter of fact, in the United States—traditionally in the driver's seat as regards transfer pricing—regulations with respect to section 482 of the tax code had been reformulated successively since 1986,[2] until the 1994 final regulations. The main changes in the 1994, compared with the pre-1986, set of rules are:

- The priority ranking in the application of the traditional methods, *viz.* the *comparable uncontrolled price*, the *resale (minus)* and the *cost-plus* methods is no longer prescribed; it is replaced by the *best method* which, under "facts and circumstances", provides the most reliable measure of an arm's-length transaction. Apart from the three methods mentioned above for tangibles, three other methods that are profit and not transaction-based are permitted. These are the "comparable-profits method" and the "profit-split method", as well as some acceptable "unspecified" methods.

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[1] The year 1979 witnessed the publication of the Organisation for Economic Co-operation and Development (OECD) guidelines on transfer pricing.

[2] In 1986, the "commensurate-with-income" standard was introduced with respect to intangibles (essentially, licensing fees). It mandated that their value would periodically be reassessed by the Internal Revenue Service (IRS). The 1968 Treasury-IRS *White Paper* further investigated transfer-pricing issues in the area of intangibles. It suggested that, in specified circumstances, an arm's-length *return,* instead of an arm's-length *price* could be used. The 1992 "proposed regulations" introduced the *comparable-profit method* as an alternative to the traditional methodologies, both for tangibles and intangibles. Largely as a result of critical comments on those regulations, the 1993 "temporary and proposed regulations" downgraded the role of the comparable-profit method. Their principal innovation was in the *best-method rule*, whereby, out of six alternative methodologies, the one which would allow the most accurate results, is to be retained. The 1994 final regulations did not modify fundamentally the 1993 version.

- Regulations as regards intangibles have become much more detailed, and four methods are allowed, among them the "comparable-profits" and the "profit-split" methods.
- The criteria for comparing intra-TNC ("controlled") transactions with "uncontrolled" ones have become more detailed.
- Apart from the "final regulations" proper, a growing number of TNCs avail themselves of the possibility, instituted in 1991, to request an Advance Pricing Agreement with the Internal Revenue Service (IRS).
- Transfer pricing that falls within an arm's-length range will no longer be readjusted by IRS, moving away from the "point" estimate.
- As *quid pro quo* for the enhanced flexibility in the choice of approaches in other pieces of legislation, TNCs are now obligated to document fully their transfer-pricing approach under the threat of severe penalties.

Moreover, the Organisation for Economic Co-operation and Development (OECD), after lengthy discussions, has now issued, in as yet preliminary and incomplete form, new guidelines that are meant to replace the 1979 version. Like in the United States, the guidelines advocate a wider spectrum of applicable transfer-pricing methodologies, including some that are *profit*-based. In that sense, they embody a departure from the arm's-length *price* standard that looks at individual transactions. Various European countries, however, object against profit-based approaches.

It may be pure coincidence but, in recent years, a surprisingly large number of monographs has been devoted to transfer pricing. The following books have come to the attention of this reviewer, without guarantee that the list is comprehensive.[3] They are:

Collins, Maurice H. (1993). *International Transfer Pricing in the Ethical Pharmaceutical Industry* (Amsterdam: International Bureau of Fiscal Documentation), 225 pages.

King, Elisabeth (1994). *Transfer Pricing and Valuation in Corporate Taxation. Federal Legislation* vs. *Administrative Practice* (Boston/Dordrecht/London: Kluwer Academic Publishers), 284 pages.

[3] *Transnational Corporations: Transfer Pricing and Taxation*, edited by this reviewer (Plasschaert, 1994), which represents volume 14 of the United Nations Library on Transnational Corporations, has been surveyed and reviewed, together with the other 19 volumes comprising the Library, by Raymond Vernon (1994).

Pagan, Jill C. and J. Scott Wilkie (1993). *Transfer Pricing Strategy in a Global Economy* (Amsterdam: International Bureau of Fiscal Documentation), 250 pages.

Rolfe, Chris (1993) for Coopers and Lybrand. *International Transfer Pricing* (Bicester, Oxfordshire: CCH Editions), 176 pages.

Tang, Roger W.Y. (1993). *Transfer Pricing in the 1990's: Tax and Management Perspectives* (Westport, Conn. and London: Quorum Books), 137 pages.

The objectives, perspectives and audiences addressed by these five books diverge greatly. The intention of this review essay is to report on the contents and main messages of those five books and to assess their strengths and weaknesses. The review will end with a few general comments about the main lessons that emerge from them.

The frequency of transfer-pricing methods used

Roger W. Y. Tang's new book essentially adopts the same questionnaire approach as his two previous books (1979 and 1981). Large firms were asked to indicate which methodologies they use when fixing transfer prices, for domestic (i.e., United States) and cross-border internal transactions (apparently, with respect to tangibles only). Other questions related to the relative importance that companies attach to a large number of *environmental variables* when they set their transfer prices. The firms were also questioned as to which hierarchical level is put in charge of transfer-pricing policies and how internal disagreements are being resolved. These materials are complemented by a review of a number of books and articles devoted to transfer pricing and by some information about transfer-pricing regulations in the United States (in the 1992 version) and Canada.

Tang's recent findings are summarized hereunder, extended somewhat to include some of the findings in his 1979 book (Tang and Vancil, 1979). Some comments are offered as to the reasons why further inferences will be drawn from the data presented here.

- The relative frequency of the use of market-based and cost-predicated methods, shown hereafter, is drawn from table 5 in Tang's book. Market-based methods are more frequently availed of with respect to transnational compared with (United States) domestic transactions. The relative position of the two major groups is not different from that found in a few other questionnaires.

Table 1. Transfer-pricing methods used by the respondent firms

(Percentage)

	Domestic transfers	International transfers
Cost-based methods:	46.2	41.4
Actual or standard variable cost of production	3.6	1.2
Actual full production cost	9.0	3.8
Standard full production cost	15.2	7.0
Actual variable cost plus lump sum-subsidy	0.9	1.3
Full production cost (actual or standard) plus a markup	16.6	26.8
Other	0.9	1.3
Market-based transfer prices:	36.7	45.9
Market price	25.1	26.1
Market price less selling expenses	7.6	12.1
Other	4.0	7.7
Negotiated price	16.6	12.7
Other methods	0.5	0.0
Total of all methods	100	100
Number of firms responding	123	90
Number of responses	223	157

Source: Tang (1993).

Note: Quite a few firms use more than one methodology; in most of such multiple method cases (54.7 per cent), only two different approaches are being applied.

- The percentage of cases that adopted market-based transfer-pricing approaches was distinctly higher, namely 46 per cent in 1990 when the data for the recent book were assembled than in 1977 when it reached 39 per cent.

- The relative prevalence of market-oriented methodologies would be enhanced if that category were to encompass the cases of negotiated transfer-pricing. As a matter of fact, the top-management of TNCs would not allow its members to negotiate freely transfer pricing if one of the members were captive to the other in terms of, say, the product transferred, or if no reference to the market place was available.

- Among the cost-based methods, ''full-cost plus markup'' is most prevalent, particularly in the international arena.

- The scores attributed by the respondents to 20 environmental variables with respect to international internal transfers puts the ''overall profit to the company'' ahead both in the 1990 and in the 1977 questionnaires. In 1990, this variable was followed by ''differentials in income tax rates'', ''restrictions on the remittance of profits or dividends'' and ''the competitive position of subsidiaries abroad''. Most of the variables cited in the book and their ranking come as no surprise. But the first variable seems to raise a problem. Although global profit maximization is an overriding objective of any firm, the price level of internally-traded commodities and services is of no relevance for the overall profit performance, as sales revenue can only be derived from external sales. Modulations of transfer pricing would only entail some additional benefits through (*a*) tax minimization or (*b*) to the extent that the choice of a transfer-pricing method would improve the allocation of resources within a TNC. In this interpretation, the answer given by the respondents is either not relevant, or becomes redundant with the tax-differential variable. Or, is the intended meaning of the ''overall profit variable'' that each unit of a TNC—and obviously also the tax authorities involved—wants to obtain a share of the profits? The author does not elucidate that rather important point.

- The ranking of the variables in the 1977 questionnaire does not differ greatly from that in 1990. The ''tax-differential'' variable, now in second position, was then only ranked fourth.

- Tang listed the dominant transfer pricing objectives mentioned by United States' firms in 1990 and 1977. Maximization of consolidated after-tax profits is ranked first (45 per cent in 1990), whereas the minimization of taxes only obtained a first ranking by 9 per cent of the firms and the maximization of sales volume a score of 6 per cent. One may again wonder, for the reasons just given, how transfer pricing can be instrumental in achieving higher profits on external sales. On the other hand, the high importance attached to the assessment of the performances of the various units which got a score of 31 per cent suggests that managerial concerns take precedence over fiscal motivations.

- In 1990, the resolution of intra-company conflicts on transfer pricing was achieved by negotiation between the divisions involved in 43 per cent of the cases observed, considerably more than in 1977 when it reached only 32 per cent. Nowadays, top executives of the parent

company intervene more frequently than before, but more by way of conciliation than in an authoritarian fashion. A growing number of TNCs appear to be establishing *ad hoc* interdisciplinary transfer-pricing committees (14 per cent of the responses in 1990 against 5 per cent in 1979).

- Another noteworthy question by Tang was whether foreign divisions of United States firms are allowed to purchase their inputs from third parties. In 1990, this was permitted in 55 per cent of the cases reported without approval by the parent company and with complete freedom in 27 per cent of the observations. Outside purchases were disallowed in 18 per cent of the cases, a slightly higher percentage than in 1977.

Thus, Tang has brought a useful set of new data about transfer-pricing-methods used and related areas on which we are still badly informed. A comparison with previous, similar research allows some longitudinal perspectives. It is somewhat unfortunate, however, that Tang did not venture further in probing for plausible explanations for the raw figures obtained, or at least in formulating hypotheses. Thus, it would have been informative if the tally of the transfer-pricing methods used had been linked to the sectors in which the firms operate, especially since the author already provides some information on sectoral breakdown. Research (e.g., Eccles, 1985) has stressed the relevance of the structural characteristics of firms for the choice of the "best" transfer-pricing methodology. In fact, this is acknowledged in the recent changes in the tax regulations as mentioned above. To cite another example, the higher relative prevalence of market-based transfer-pricing methodologies in the international—as opposed to the United States—arena, and in 1990 compared with 1979, can probably be attributed to the heightened vigilance by the tax authorities and to the spread of profit-centres in TNCs. The testing of such hypotheses could enhance the usefulness of Tang's findings.

Coopers and Lybrand

The book by Chris Rolfe for Coopers and Lybrand is practice-oriented. Chris Rolfe, the London-based main author, is the chairperson of that firm's Transfer Pricing Services Group. The book starts from the premise that tax authorities see transfer pricing as a "soft target" (p. 1) and that TNCs display a lack of attention to this growing problem, although they could, with appropriate action, build a more solid defence line against the claims of tax authorities. Although the text deals almost exclusively with corporate taxation (except for a chapter on customs duties), another message is also that a

proper transfer-pricing policy, and especially the related analysis of the functions exercised and the risks borne by each of the units of a TNC, would improve management practices.

The comparative strength of the book lies in the survey of how tax audits are being conducted in a number of countries (in addition to the United States, the author(s) cover(s) Australia, Canada, Germany, Japan and the United Kingdom), and in the excellent analysis of the parameters that should be heeded when setting up one of the transfer-pricing methodologies that are allowed by the tax authorities. The chapter on the audits distils some advice to TNCs on how to face the tax authorities and recommends a cooperative and professional attitude. How comparables should be found is also given emphasis. In addition, the book contains tables on the rules that prevail in major OECD countries with respect to *thin capitalization* standards, burdens of proof and the availability of advance rulings. Occasionally, it also shows that the attitudes in the various countries, even among the OECD members, are very much at variance. Thus, in the United Kingdom, court cases are systematically avoided, and audits, admittedly thorough, are conducted by way of correspondence, without any field inspections, that are a typical tool of the tax administration in the United States.

The economic roles that the various units of a TNC may have to perform are well dissected. This is complemented by a comprehensive list of questions that may have to be raised when setting up a functional analysis. Some more specialized items, such as intangibles, cost sharing and foreign exchange and finance, are also covered. The book contains a large number of examples, presumably drawn from the practical experience of the author(s), but steers away from discussing court cases. The main axes of the 1993 version of the United States regulations are also being reported. While the book is primarily aimed at tax managers of TNCs, it can also be recommended to non-practitioners who want to understand better what transfer-pricing investigations in the tax area are all about. The text is down-to-earth and lucidly written, with concepts clearly spelled out.

Jill C. Pagan and J. Scott Wilkie

This book has fundamentally the same objective as Rolfe's book and is aimed at a similar audience. The authors, both of them legal practitioners in the United Kingdom and Canada, respectively, survey the definitional, legal and procedural aspects of transfer pricing in the corporate tax field.

The book contains a number of judiciously perceived points and advices. More particularly, the chapters on the resolution of disputes, on advance-pricing agreements (particularly in the United States) and on bilateral treaties are well informed and fully reliable. The chapter reports on the well-publicized Sunstrand case that was brought before the United States Tax Court in 1990-1991 and explains how and why the opposing parties became stuck in sterile antagonistic positions. The treatment of global trading within financial TNCs and its reference to the advance sterile pricing agreements that have been reached with Barclays and Mitsubishi banks is interesting, although the authors do not mention which criteria underlie the resulting formulatory allocation of profits over the various entities within these banks.

The definition of concepts often lacks rigor (e.g., ''integration'', pp. 102, 133: within the firm or in a macro economic sense?). Despite the due emphasis on functional analysis, there is no detailed description of how this should be carried out. The risk-dimension factor, which has become an essential vector in such analyses, is not accorded adequate attention. The insistence on securing the services of an economist appears somewhat overdone, more so since the authors admit that economics is not an exact science (p. 203) and repeatedly—and rightly—state that the determination of transfer pricing is more an art than a science. Thus, one may wonder why the contribution of accountants is downgraded although they often come up with more exact figures (e.g., as regards variable costs) than economists who may profess concepts that are theoretically valid, but are not operational (such as marginal cost).

I also confess to being uneasy about some of the major themes of the book. One of its *leitmotivs* is that it is no longer appropriate to view transfer pricing solely as implying tax avoidance or evasion. Nowadays, the problem of transfer pricing arises in the allocation of net income between units of a TNC that are geographically spread over different tax jurisdictions. Such a viewpoint is questionable. I would rather hold that the intensified vigilance of the tax authorities has brought in its wake the need and the rapid spread of functional analysis, which is also being used for managerial purposes.

The authors posit that the ''separate-entity'' approach and, hence, the search for a comparable arm's-length price is not compatible with the integrated nature of TNCs, and it is thus difficult to allocate properly overall profits over the various units. This view, however, does not enjoy a general applicability to all TNCs. The truly relevant question is: under which circumstances and for which functions do TNCs subject their foreign affiliates

to centralized management from headquarters, or allow them considerable autonomous decision-making?

These rather critical comments may well be due to the attempt by the authors to venture beyond the realm of legal commentary into more conceptual issues. While such ambition is laudable, the treatment is not convincing and displays often a lack of depth.

Maurice H. Collins on the ethical pharmaceutical industry

Discussions on transfer prices, and allegations of transfer-pricing manipulation by TNCs, focus readily on pharmaceuticals. This comes as no surprise since the research-based pharmaceuticals industry strives to develop drugs that will enjoy a (temporary) monopolistic position thanks to legal patent protection and the low price elasticity of demand by patients, as well as physicians who prescribe the drugs. Furthermore, pharmaceuticals is a high-risk industry, as it must indulge in massive expenses for research and development, with uncertain results. The prices of the end-products are often restricted through governmental interventions; and once the chemical formula has been tested and developed, the cost of reproducing a particular drug is quite low.

The book was commissioned by a number of leading TNCs in the pharmaceutical industry, several of which prepared specific materials or gave advice to the author. The main text is preceded by a summary of the salient points and is complemented by no less than 22 appendices that provide additional materials about either the pharmaceutical industry or transfer-pricing methodologies. In essence, the book comprises two themes, although these are scattered throughout the main text and the appendices. The first is a careful analysis of the characteristics of the pharmaceutical industry especially of its research-and-development activities. The second deals with the transfer-pricing issues in that industry.

An outstanding quality of the book is its clarity and (almost excessive) pedagogical approach. The treatment is also commendably careful: when, at times, the author sounds rather apologetic about the positions defended by the pharmaceutical industry, his wording is nuanced and the points made are, on the whole, persuasive.

Collins provides a number of noteworthy findings that deserve careful reading. Thus, he substantiates that pre-clinical research-and-development activities and the production of active ingredients tend to be concentrated in the home country of a TNC. The parent firm usually owns the trademarks and brand names. The marketing activities are carried out by the foreign affiliates, although a large portion of the final sales is channelled through independent wholesalers (and, subsequently, pharmacies) in the host countries.

Collins includes a short, but interesting, chapter on how the prices of the end-products sold to external customers are being determined by pharmaceutical firms. The cost-plus method is seldom used, except when contract manufacturing is entrusted to a foreign affiliate. Firms design their end-prices mainly along the lines of those charged by their competitors and, for drugs that are not yet facing much competition, according to the customers' perception of value or what the market can bear. In most developed countries, however, with the notable exception of the United States, Governments constrain end-prices. Such interference, as well as differences in the distribution systems, account for the wide variation in the prices of end-products, even within the European Union.

Several findings about the way(s) transfer prices proper are being set are worth mentioning. Most pharmaceutical groups try to ensure that their transfer prices are consistent with arm's-length pricing (p. 76). In other words, TNCs appear to try to bring their pricing methods in line with the requirements of the tax authorities, if only to avoid confrontations (even if other transfer-pricing methods would be preferable on the grounds of managerial governance and fair evaluation of the performances of affiliates and their managers). Thus, the parent company tends to charge the same transfer pricing to all foreign affiliates because this is easier administratively and evokes less suspicion from the home country's tax authorities. But in joint ventures, transfer prices are often directly negotiated by TNCs with their foreign partners.

Yet, by far the most prevalent method used by pharmaceutical firms is the sales-minus method. Transfer pricing are determined "backwards" from the sales price charged to the first third-party purchasers (most often, wholesalers), from which a gross profit margin is deducted. That margin should cover the cost of the TNC-member concerned and encompass a reward for the functions performed and the risks incurred. In fact, this practice applies to all internal transactions that must be priced, i.e., not only to the distribution stage of finished products, but also to the stage whereby active ingredients are transferred by the "primary manufacturers" to a group member for

''secondary formulation'', or/and when subsequently another group member packages and labels the drugs.

The Comparable Uncontrolled Price (CUP) method is not warranted in the ethical pharmaceutical industry. In explaining why, Collins stresses that the relationship between members of a TNC system is long-lasting, whereas that between unrelated parties is often temporary.[4] More importantly, ''similarity can be deceptive'' as ''a drug is a unique compound'' (para. 337). Even generic products, although they are cheaper, could not serve as a proper ''comparable'', considering the high value and the loyalty that customers often attach to brand names. Here, Collins, without delving deeper, touches upon the debate on the relative merits of generic versus branded drugs—which basically amounts to the question raised by Sanjaya Lall (1979), namely, which price a society's willing to pay to finance a risky innovation.

Transfer-pricing problems regarding intangibles are given a less extensive treatment by Collins than tangibles. This may be due to the finding that ''generally. . . R and D costs and any appropriate margin will be recovered by being subsumed in the transfer price for goods currently being sold. . . although there is no specific charge for R and D into the transfer price, the price has to be adequate to enable a satisfactory contribution to be made to the costs of research and development currently being incurred'' (para. 312). Licensing is rather seldom availed of, not only *vis-à-vis* unrelated, third parties, but also in intra-group transactions. This is a very important point, as it would imply that in research-and-development intensive industries, transfer-pricing problems with respect to internal licensing agreements emerge less frequently than is commonly believed. Here again, the price levels for the externally sold end-products appears to be highly relevant to the transfer-pricing issues. It would have been rewarding if the author had investigated how the overall profits reaped by a system along the value chain are apportioned between the various members of the TNC system.

Occasionally, Collins states his own views about some controversial issues. He voices a dislike for rigid rules (by which he almost certainly means United States regulations) and repeatedly pleads for ''reasonableness''. The trouble is that while nobody challenges such views—in fact, these are specifically mentioned in some transfer-pricing legislations—they cannot be easily operationalized except at the judicial stage inspiring the wisdom of the judges.

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[4] It is worth noting that this statement could be construed into a more general criticism of the CUP method.

In sum, Collins has provided a careful analysis, which, although commissioned by the pharmaceutical industry, is unbiased on the whole. Although the number of his observations is rather limited, it would have been preferable if they had been tallied, for example, as regards the relative frequency of intra-group licensing agreements. A more involved analysis of monopoly positions and oligopolistic competition among TNCs in pharmaceuticals might have enriched this book further. But it is unrealistic to expect that a single person can master all strands of analysis in a complex field that requires interdisciplinary approaches.

The book by Elisabeth King

This book contains a thorough analysis of a number of thorny issues—both in their substantive and procedural aspects—that entail frequent disputes between TNCs and the United States tax authorities in some of the most intricate problem areas as regards transfer pricing. More specifically, Elisabeth King devotes separate chapters to the cost-plus and the resale-minus methodologies for the derivation of arm's-length prices[5] for cost-sharing agreements, intra-royalty payments and the valuation of intangible assets (governed by section 338 of the income tax code). Each of the chapters is built around detailed transfer-pricing or valuation cases (ten in all) which are drawn from the author's experience as an economist with the IRS, or subsequently as a consultant economist, but which are "fleshed out with additional fictional details" (p. 7). For each of those cases—which relate to the most intricate problem areas in the transfer-pricing field—she examines the shortcomings of the pre-1993 regulations and how the latter were possibly improved by the 1993 "temporary and proposed" regulations. Some proposals are formulated to mend the remaining defects. All this is achieved with an impressive command of the regulations and of the ways in which they are administered, with a generally successful effort to subject the problems under discussion to economic analysis in a well-structured book with commendable clarity. The reader who is willing to work through the complex and often subtle matters investigated by the author is rewarded with a rich harvest of insights.

[5] In contrast to the usual practice, King catalogues both methods not under the transaction-based, but under the profit-based category on account of the need to derive the gross profit ratios from the one practised in comparable arm's-length transactions.

King's starting points are that "the regulations that implement section 482 legislation are highly (and, to some degree, unnecessarily) ambiguous, lending themselves to a wide variety of interpretations" and that there is a (wide) "disparity between section 482 legislation and administrative practice" (p. 4) such that "administrative practice has largely superseded the relevant tax laws of the land" (p. 5). She deems this state of affairs objectionable in a democracy as it entails "horizontal inequities", especially considering that TNCs that operate in similar circumstances are not treated equally. She also states that both TNCs and IRS invest considerable resources in disputes on transfer pricing. The tax authorities most often lose these disputes because the courts tend to side with the taxpayers, and because the tax authorities, lacking time and manpower, and fearing lengthy litigations, tend to accept compromises that tilt the balance in favour of the taxpayers. This happens particularly at the level of appeal procedures.

At the outset, King also wonders whether the inadequate enforcement of transfer-pricing norms and the resulting loss of revenue might be motivated by the inclination of the body politic to bolster the international competitiveness of United States businesses, while creating the illusion that the IRS takes a tough stand *vis-à-vis* big businesses. Subsequently, the author does not pursue this line of enquiry, which is unconvincing since transfer-pricing levels as such do not affect the price of end products, in any event, and since the nominal (and often also the effective) corporate tax rate in the United States lies below that which prevails in most other countries.

The proposals made by King at the end of the various chapters are meant to fine-tune the 1993 regulations, to clarify what she considers to be nebulous areas and to narrow the gap between law and administrative practices. Two of her specific proposals are predicated upon economic concepts and techniques. She advocates that the "opportunity-cost" concept be resorted to more frequently, particularly in a cost-plus setting. She also suggests that regression analysis be used more systematically when gauging the profitability of a TNC unit. This would render superfluous the need to search for individual comparables. Instead, "one can extract the information necessary to construct such comparables from a (sufficiently large) sample of inexact comparables" (p. 272). This is an interesting idea, which presents some analogy with the rule, set forth by the section 482-1 (*e*) of the final 1994 regulations, that establish that transfer pricing are acceptable for tax purposes when they fall within a specified range. Regression analysis, however, presupposes the availability of an adequate and reliable data base on

profit ratios (preferably in relation to assets or equity, rather than to sales) and on the independent variables which could be viewed as determinants of profitability.

Conclusions

Most readers would probably be interested in learning about the actual transfer-pricing philosophies and practices in TNCs; how tax rules are spelled out and actually implemented; and whether, and in what respects, actual regulations can be improved so as to be based more firmly on economic logic and legal principles and be brought in line as much as possible with sound managerial approaches without overlooking the interests of the tax authorities.

Obviously, one cannot expect that the books reviewed here would deliver full answers to these questions. Two of the books aim at explaining actual audit practices without addressing the broader questions formulated above. It should also be mentioned that none of the books surveyed contains glossaries on existing legislation and court/glossaries cases from a purely legal viewpoint, although the book by King, while written by an economist, dissects a number of interesting cases. Yet, a review of the five books allows a few general comments and suggestions for further research:

- Knowledge and information about actual transfer-pricing practices by TNCs and their choice methodologies is needed. The data assembled by Tang are useful, but should be related to the factors that shape that choice. Structural features of an industry, or even of an individual TNC, may be relevant as exemplified by the book by Collins on the ethical pharmaceutical firms. Additional studies along similar lines would be welcome.

- The wide variety of facts and circumstances and hence the need for a flexible approach by the tax authorities is more widely acknowledged nowadays and reflected in recent changes in the rules, as summarized in the introduction.

- Increasingly, tax rules appear to have some—perhaps even a major—impact on the methodologies adopted by TNCs. It would be worthwhile to investigate whether the tax-induced transfer-pricing methods are always compatible with the requirements of good management. In this respect, one should expect that some divergence between tax and

managerial considerations may well be unavoidable. Hence, the use of a dual set of transfer pricing must not be interpreted as signifying an attempt at tax dodging. Still, the gap between the managerial and the fiscal approaches should be bridged as much as possible.

- Functional analysis, with the attendant identification of functions, risks and assets in the various units involved in a TNC's value chain, is apparently becoming an incontrovertible aspect of the search for tax-acceptable transfer prices useful for managerial purposes. But such analyses are often quite complex. Yet, they are also useful for better informed and performing management.

- While functional analysis is likely to spread—and a growing number of countries are either strengthening their surveillance of transfer pricing, or are introducing rules on them—one may wonder whether, given that the determination of transfer pricing is as much an art as a science and that perfectionism would be self-defeating and excessively costly, the highly detailed United States regulations and procedures are preferred over less complex approaches. In some countries such as the United Kingdom, the surveillance by a specialized corps of tax officials is known to be rather effective without heavy compliance costs.

- The arm's-length *price* norm, which compares controlled with uncontrolled transactions is being complemented with *profit-based* approaches, as witnessed by the final regulations in the United States and the provisional new OECD guidelines. Both approaches are now subsumed under the "arm's-length *result*" concept. This important partial shift in the philosophy that inspired transfer-pricing norms must be interpreted as a recognition of the bewildering variety of facts and circumstances against the backdrop of which transfer prices must be set and the difficulties often encountered when attempting to implement the "arm's-length price" principle, especially when intangibles are involved, as it is often the case in markets that are characterized by imperfect competition and product differentiation.

- Transfer-pricing cases always involve at least two countries that, naturally, tend to defend their own turf. This can result in overlapping claims and some degree of international double taxation. The procedures to reconcile the conflicting claims of the countries concerned, such as the "competent-authority" proceedings, are often deficient, if only because they are lengthy and cumbersome. Establishing more ef-

ficient procedures to adjudicate the concurrent claims of different jurisdictions is becoming a rapidly pressing item on the fiscal agenda of the international community. ■

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BOOK REVIEWS

Arms Industry Limited

Herbert Wulf, ed.

(Oxford, Oxford University Press, 1993), 415 pages

The end of the Cold War and the revamping of military policies has been accompanied by a substantial restructuring among firms and industries that produce for military markets. These changes in the world's armaments industries are documented and analysed in *Arms Industry Limited*, from the Stockholm International Peace Research Institute (SIPRI). SIPRI has a well-deserved reputation for producing high quality reports on military policies, strategies and budgets, and arms production and foreign military sales. SIPRI's study on the state of the world's arms industries will do no damage to that reputation. *Arms Industry Limited* contains country or region-specific chapters on defence budget policies and trends and industry responses prepared by experts in the topic and the region or country they are writing about. The volume thoroughly documents conditions in developed countries (the United States, Western Europe, Japan and Australia), developing countries (Turkey, China and a survey chapter on 12 countries), and economies in transition (the former Soviet Union, Poland and the former Czechoslovakia).

For the developed economies, the struggle to maintain viable defence industrial bases in the context of increasing budgetary stringency is a dominant theme of the SIPRI volume. One issue that receives considerable attention is the inter-nationalization of military markets. International arms sales, of course, have a long history. While countries seek to be autonomous in their access to armaments and related output, for security reasons, they also recognize the reality that the best technology and most efficient producers often reside outside their borders. Thus, a thriving international trade in weaponry has been in existence for some time. However, there is increasing evidence that military production is going "global" and that producers of military goods and services are being subject to the logic of transnationalization. Transnationalization is a major theme only in Elizabeth Sköns' chapter on Western Europe, where cross-national production has perhaps proceeded the furthest, but many of the issues that underlie transnationalization are raised throughout the volume.

Transnationalization, which involves cross-national linkages in arms production, not just sales, is occurring for a number of political and eco-

nomic reasons. Government actions have fostered transnational linkages through co-development and co-production agreements whereby segments of the value chain for a specific product are shared by firms in different countries. An example is the F-16 fighter aircraft, developed in the United States and co-produced with other NATO members. In addition, Governments have supported co-production, offset agreements and other inter-linkages as part of export strategies.

Government-supported inter-firm arrangements have become common in Western Europe, as Governments have promoted cross-border mergers and collaborative agreements in order to reduce chronic excess capacity, compete for international sales against larger United States firms and develop Europe-wide technology initiatives. Recent research suggests that collaborative arrangements can lead to cost savings and increase the scale of production (Hartley and Martin, 1993). In Japan, the Government has supported international collaboration as a means of obtaining technology and maintaining a defence industrial base in the face of long-standing political and constitutional limitations on the size of military budgets. The chapter by Masako Ikegami-Andersson describes some of Japan's international programmes, including the FSX collaboration with United States firms, and Japan's dual-use strategy with respect to high technology products (see also Drifte, 1985).

Pressures for transnationalization are also arising from less visible sources. In the years during and after World War II, military technology played a leading role, and innovations in propulsion systems, air frame design, microelectronics, computers and other areas spilled out from military programmes to stimulate civilian products, and in some cases to create new industries. The military even influenced management practices: Toyota engineers studied the organization of production in United States aircraft factories in formulating the just-in-time inventory management system.

More recently, however, the technological shoe has been on the other foot. As civilian firms became stronger and new competitors achieved world-class status, and as military requirements became more specialized, costly and time consuming, civilian technology assumed a leading role. Thus, the organization of production for military markets has had to adapt to changes in civilian markets.

In addition, many civilian products have been able to spread rising development costs over an expanding market, resulting, in some cases (i.e., computers) in rapidly declining costs as quality improves. Military markets, on the other hand, have shown little growth in most developed economies. In the United States, for example, real military spending grew at a compound rate of only 0.2 per cent per year from 1956, after the Korean War, to 1988,

the height of the Reagan buildup. Thus, the current squeeze is occurring after more than three decades of stagnation (Gold, 1994). But as pointed out in the chapter on United States defence procurement by Gordon Adams and Steven Kosiak, the continual push for military superiority, or at least parity, drives research and development upward even as output growth declines. The inevitable result is cost growth.

It is not surprising, then, that military production has become more reliant on technology originating in civilian firms. This is reflected in the patterns of international linkages in different groups of industries supplying the military. The data presented by Elizabeth Sköns on Western Europe, drawn from SIPRI's extensive data base, shows, for example, that the degree of cross-border collaboration among firms varies substantially across product areas. (A study by Bitzinger, 1993, also uses SIPRI's data to look at firm-level developments in the United States, Western Europe and East Asia.)

In military electronics, international mergers and acquisitions, joint ventures and various non-equity arrangements have become quite common, paralleling civilian developments. These arrangements include intra-European acquisitions and alliances and those involving firms from the United States and other countries. Many of these cross-border arrangements are designed to link rapidly developing technologies, rationalize production and solidify links with civilian activities. In aerospace, collaboration, co-production and licensing are the primary forms of cross-border linkages. Mergers and acquisitions, more common in civilian product lines, have been restricted by Governments, but since aircraft technology is increasingly of a dual-use nature, Sköns foresees increasing pressure on Governments to relax such restrictions. The production of military vehicles, such as tanks, armoured personnel carriers, jeeps, trucks, etc., has remained more nationally based than electronics and aircraft. These areas, for the most part, employ mature technologies and have had greater success than electronics and aerospace in controlling unit costs.

Cross-border firm-level linkages also play a role in military programmes in developing countries. Gülay Günlük-Senesen, in her chapter on Turkey and in subsequent writings (Günlük-Senesen, 1994), points out the importance of such linkages to that nation's military modernization programme. Other developing countries that are seeking to expand their domestic arms production capabilities rely heavily on joint ventures and licensing agreements with developed country firms. Some of this data is presented in Ian Anthony's chapter on 12 "third tier" arms producers.

Transnationalization represents the expansion of the firm's domain of common governance to an international arena. When comparing military

with civilian activities, a difference is that transnationalization in most military products involves not just private enterprises that are expanding their area of common governance, but Government agencies. Governments have traditionally had a major role in selecting products, structuring incentives and allocating resources in the largely monopsonistic military industries. This role may have diminished in recent years, following the greater privatization among military-sector firms in Western Europe—although the United States experience with a privatized defence sector leaves plenty of scope for Government intervention—and the growing reliance on civilian technology. One result of Government involvement is a limitation on the mechanisms of transnationalization. In the United States, for example, FDI in military industries, and in industries considered vital to national security such as telecommunications and radio and television, are severely restricted, and mergers and acquisitions by foreign firms are often disallowed (Graham and Krugman 1991, chapter 5). Such limitations may have implications for whether the potential benefits of transnationalization are realized, and how they are distributed.

Within Western Europe, economic and political developments appear to be increasing the incentives for expanded cross-border collaborations in the production of military goods and services. The still fledgling efforts to develop a post-Cold War European security apparatus are likely to increase pressures for commonality in weapons development, while economic factors will continue to promote transnationalization. In the United States, policies have yet to come to grips with the transnationalization phenomena. As Judith Reppy points out in her chapter on changes in the United States, defence firms are largely being left to manage their own transitions, leading to a wave of rationalizations and consolidations and, as described in Ian Anthony's chapter on arms exports, a renewed emphasis on selling internationally. It is possible that defence planners may seek greater restrictions on transnationalization activities, if it is thought that they might interfere with domestic mobilization and development (Kietel and Bitzinger 1994). ■

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* The views expressed in this review are personal and do not necessarily represent those of the United Nations.

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Foreign Direct Investment

Edited by Kenneth Froot

(Chicago and London, The University of Chicago Press, 1993), 297 pages.

Books based on conference proceedings are often disappointing; conference organizers often tend to "round up all the usual suspects" and they in turn present the usual papers. This edited volume is an exception, and many of the contributions offer interesting avenues for future research.

Edward M. Graham and Paul R. Krugman look at the question of the upward trend in foreign direct investment (FDI), and the rise of transnational corporations' (TNCs) activities more generally, in the 1980s. They suggest four reasons for the growth of TNCs: "increasing integration of world markets, growing similarity of national markets, improved communications and control of technology, and growing symmetry in the international generation of technology" (p. 24). They conclude somewhat disappointingly that "the conceptual foundations of discussion about FDI are fuzzy enough to allow many hypotheses" (p. 31). One is left with the impression that the authors are trying too hard to look for the fundamental forces driving FDI, while ignoring some obvious facts. The continuous growth of FDI throughout the 1980s and the subsequent downturn in the early 1990s indicates that, to a large extent, FDI is cyclical. As with any investment, FDI decisions are affected by the availability of earnings for reinvestment and profitable opportunities, both of which are curtailed during periods of recession.

A less ambitious approach, such as looking more closely at disaggregated figures, would have revealed that the upward trend is at least partly the result of the growing number of firms engaged in FDI, particularly in the service sector and newly privatized industries. These firms in turn are investing in more and more countries as attitudes towards FDI have changed and as competitive positions have shifted.

Rachel McCulloch offers a thoughtful piece on the conceptual similarities between trade and investment, and on how international negotiations on trade issues neglect this aspect of international competition. Raymond Vernon and Richard E. Caves discuss the strategic aspects of TNC behaviour as a way of understanding the direction that behaviour is likely to take in the future. The subsequent three chapters consider case studies of individual host countries.

Robert Z. Lawrence discusses the low level inward investment in Japan and the role of inhibitions on acquisitions. It is now widely recognised that the share of the Japanese economy accounted for by foreign-owned firms is uniquely low in Japan. While Government-imposed barriers may have played the dominant role in the past, market structure is now more important. Even in the best of times, Japan would be a costly market to enter. Under normal circumstances, firms would opt for entry via acquisitions of local firms with extensive knowledge of the local economy. If this is precluded, as it is indeed the case with the Japanese *keiretsu* system, then FDI is also curtailed. Regression analysis suggests that *keiretsu* appear to inhibit acquisitions by foreign firms, but not intra-Japanese mergers. Lawrence argues that ''the expansion of stock cross-holdings among *keiretsu* members and other Japanese firms during the 1970s was an explicit device to prevent foreigners from buying Japanese companies'' (p. 105). Although such practices do not violate any international laws, they nevertheless serve to undermine market access in certain industries. The author concludes, somewhat ominously, that ''it is hard to imagine that the current asymmetries will be maintained'' (p. 106). In spite of Lawrence's claim that the *keiretsu* are more exclusionary than they are efficient, the debate will no doubt continue.

Robert Lipsey describes at length the changes in FDI in the United States over three decades. With the abundance of information provided by the United States Department of Commerce, there is much to discuss. But it might nevertheless have been more interesting to devote more attention to policy changes, as well as to the evolution of corporate strategies. Much of the information provided is, after all, publicly available. Louis T. Wells looks at the evolution of investment in Indonesia, from quota-hopping FDI by other Asian countries producing for the developed countries, to local market-oriented production in the face of trade barriers, and finally to footloose Asian producers interested in serving their own home markets or the whole region from an offshore base. Interestingly, he notes that ''from the point of view of the host country, local firms' access to the marketing channels from the industrialized countries may be the most important advantage offered'' (p. 185) from FDI. It is a useful reminder of the myriad subtle ways in which inward FDI benefits the host country which are often lost in the misguided discussion of exports and employment.

David Yoffie presents a case study of the semiconductor industry. It is one example of how FDI location determinants can sometimes shift away from labour-rich countries over time back towards the centre, in contrast to the usual view of the product cycle flowing from North to South.

The remaining two chapters focus on mergers and acquisitions involving foreign firms rather than at direct investment *per se*. Because of the prevalence of acquisitions in total flows, it is one area for which industrial organization and finance theories can offer insights. Paul Healy and Krishna Palepu examine international corporate equity acquisitions and find that these are deterred by government regulations in the host country and by differences in ownership structures, and that they are encouraged by growth in the target country. Their regression analysis leaves much to be desired.

Deborah Swenson looks at foreign mergers and acquisitions in the United States. Not surprisingly, they account for the largest share of total FDI. She finds that, after removing industry and country differences, foreign firms routinely pay a hefty premium compared with domestic firms for their acquisitions in the United States. A nagging doubt still remains over whether or not she really has removed all other influences, but the findings are nevertheless fascinating and offer yet another potentially fruitful avenue for research.

If there is one criticism of this book, it is the focus on FDI in and by the United States, with the only exception being the contribution by Wells. While this should not be surprising given the location of the conference and the nationality of the participants, it nevertheless ignores many new developments in other parts of the world involving non-United States TNCs. Given that many of the theories which have evolved to explain United States FDI have not translated well into other countries' experiences, this narrow focus does not fit well with the all-encompassing title of the book. ■

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* The views expressed in this review are personal and do not necessarily represent those of the OECD.

JUST PUBLISHED

Foreign Direct Investment in Africa

(Sales No. E.95.II.A.6) ($25)

Africa has not taken a share in the sharp increase in FDI inflows to developing countries during the early 1990s, which has been confined to other developing regions. This first book-length study reviews FDI trends in Africa and analyses the differences in FDI performance and potential due to the great heterogeneity existing among the African countries. An analysis based on assessment of the actual amounts of FDI flowing to the African countries in light of their performance across the main economic determinants affecting FDI inflows, suggests that there is unexploited investment potential in Africa. This analysis implies that TNCs should not treat Africa as a whole as an inhospitable location for FDI and ignore existing opportunities in this region. In addition, the study shows that existing FDI in Africa is more profitable than in other developing countries regions. The study also examines the legal framework for FDI and it concludes that, while many efforts have been taken by African countries during the past decade to increase their attractiveness to foreign investors, more should be done to realize the investment opportunities that exist in Africa.

Trends in foreign direct investment

(TD/B/ITNC/2)

Report prepared for the twenty-first session of the Commission on International Investment and Transnational Corporations. It reviews recent developments in FDI global trends and analyses the importance of international transactions to securing access to markets and resources. Available free of charge.

Foreign direct investment in developing countries

(TD/B/ITNC/3)

Report prepared for the twenty-first session of the Commission on International Investment and Transnational Corporations. It examines FDI trends in Latin America, Asia and Africa. Available free of charge.

Commercialization of science and technology activities in transitional economies

(TD/B/ITNC/4)

Report prepared for the twenty-first session of the Commission on International Investment and Transnational Corporations. It describes a programme to assist transnational economies in selling their science and technology products and services in international markets via business alliances with high-technology transnational corporations. Available free of charge.

Incentives and foreign direct investment

(TD/B/ITNC/Misc.1)

Background document prepared for the twenty-first session of the Commission on International Investment and Transnational Corporations. The report reviews the definition, objectives and types of FDI incentives and the incentives competition among countries; analyses the theoretical framework of FDI incentives and their effects on foreign investors' decisions; presents the international experience in dealing with FDI incentives; and makes recommendations for policy measures at the multilateral level. Available free of charge.

Foreign direct investment in Central and Eastern Europe

(TD/B/ITNC/Misc.2)

Background document prepared for the twenty-first session of the Commission on International Investment and Transnational Corporations. It reviews FDI trends for Central and Eastern Europe. Available free of charge.

Activities of the programme on international investment and transnational corporations

(TD/B/ITNC/Misc.3)

Background document prepared for the twenty-first session of the Commission on International Investment and Transnational Corporations. It reviews

the activities of the DTCI in the areas of research and policy analysis, advisory services and training, information and accounting and privatization, entrepreneurship and competitiveness during 1994. Available free of charge.

National Legislation and Regulations Relating to Transnational Corporations: Volume VIII

(Sales No. E.94.II.A.18) ($60)

This is the eighth volume in a series published by the United Nations since 1978. It covers 15 selected countries from different regions of the world, of which 6 (the Democratic People's Republic of Korea, Lao People's Democratic Republic, Mongolia, Myanmar, Paraguay and Viet Nam) had not been covered in previous volumes. The report follows the format of previous volumes and covers topics related to main investment legislation; monitoring and screening of investors; ownership, control and divestment; foreign exchange and control regulations; technology transfer and restrictive business practices; incentives and taxation; export-processing zones; disclosure requirements under corporate laws; investment guarantees; governing law; and dispute settlement.

Transnationals, vol. 7, no. 1 (March).

A quarterly newsletter, available free of charge.

The Transnational Focus, vol. 11 (December).

This journal published by the Joint Unit of the Economic Commission for Africa and UNCTAD brings together articles on issues related to FDI in Africa. This volume includes a survey of Japanese FDI in Africa; the regulatory framework of FDI in Africa; a study of joint ventures as a means of promoting FDI and the role of TNCs in human-resource development. Available free of charge.

Books received on foreign direct investment and transnational corporations since December 1994

Eden, Lorraine (ed.), *Multinationals in North America* (Calgary, Alberta, University of Calgary Press, 1994).

Globerman, Steve (ed.), *Canadian-Based Multinationals* (Calgary, Alberta, University of Calgary Press, 1994).

Graham, Carol, *Safety Nets, Politics and the Poor: Transition to Market Economies* (Washington, D.C., The Brookings Institution, 1994).

Guislan, Pierre, *Les Privatisations: Un Défi Stratégique Juridique et Institutionnel* (Bruxelles, De Boeck Université).

Hatem, Fabrice and Jean Daniel Tordjman, *La France Face à l'Investissement International* (Paris, Economica, 1995).

Jansson, Hans, *Transnational Corporations in Southeast Asia* (Aldershot and Brookfield, Edward Elgar, 1994).

Karakaya, Fahri and Erdener Kaynak (eds.), *How to Utilize New Information Technology in the Global Marketplace* (Binghamton, New York, International Business Press, 1995).

Kikuchi Takeshi (ed.), *Japanese Distribution Channels* (Binghamton, New York, International Business Press, 1995).

McFetridge, Donald G. (ed.), *Foreign Investment, Technology and Economic Growth* (Calgary, Alberta, University of Calgary Press, 1994).

Saunders, Peter and Colin Harris, *Privatization and Popular Capitalism* (Buckingham and Philadelphia, Open University Press, 1994).

Wilkins, Mira (ed.), *The Growth of Multinationals* (Aldershot and Brookfield, Edward Elgar, 1991).

Report of the editors of *Transnational Corporations*

The year 1994 was the first year of publishing the journal in Geneva (Switzerland), following the transfer of the Programme on Transnational Corporations to UNCTAD, to become the Division on Transnational Corporations and Investment. A number of adjustments still need to be made, with a view towards improving the quality of presentation of the journal.

Editors and the Board of Advisers

Karl P. Sauvant edited the journal with the assistance of Persephone Economou (Associate Editor) and Fiorina Mugione (Associate and Managing Editor). The editorial board is grateful for assistance provided by many United Nations staff members at various stages of the publication process. Tagi Sagafi-nejad acted as book review editor for one issue and provided some assistance in advertising the journal.

There are sixteen experts in the Board of Advisers, chaired by John H. Dunning (Universities of Reading and Rutgers). Board members have been selected to reflect different areas of expertise in the field of transnational corporations. The editors are indebted to the Board for the professional advice that they received in the course of 1994.

The editorial process

The editorial process has worked fairly smoothly during the third year, thanks to the support provided by members of the Board of Advisers (especially its chairperson), reviewers and the staff of the UNCTAD Division on Transnational Corporations and Investment.

Manuscripts submitted to the journal (except book reviews) are evaluated following a double-blind refereeing process. Under this process, a reviewer is not informed of the author's identity and, at the same time, the editors do not disclose the reviewer's identity to the author. Manuscripts are sent to two or three external reviewers if it is decided by the editors that they fit into the scope of the journal. The blind-refereeing approach of the articles submitted for publication remains a valuable tool for maintaining high stand-

ards. Table 1 shows the disposition of the manuscripts that the editors received in 1994. Of the 47 articles and research notes submitted (a part of them invited), 17 were published.

Table 1. Disposition of manuscripts as of 31 December 1994

Item	Published	Rejected	In process	Total
Article	12	11	16	39
Research note	5	—	3	8
Total	17	11	19	47

Source: UNCTAD, Division on Transnational Corporations and Investment.

The slow-down in the rate of article submission for possible publication continued in 1994 partly due to the transfer of the journal to Geneva. The possibility of involving another associate editor from academia in the overall editorial process has been discussed. The possibility has also been discussed of having a guest editor be in charge of an issue of the journal. Continuous efforts are also being made to improve the editorial process. Authors are now encouraged to submit articles through the Internet e-mail. The review process is also expected to benefit from the use of e-mail, allowing the faster exchange of communication with referees.

The distribution of *Transnational Corporations* was about 3,000 in 1994, of which some 2,000 persons and institutions received the journal through the Division's mailing list. The number of subscriptions has remained stable, which means that further efforts are needed to expand it.

Promotion activities

During 1994, efforts have been made to advertise the journal, mainly through the exchange of flyers with a number of academic journals, and by issuing calls for papers and press releases of published issues. A presentation of the journal was also given on 6 November 1994 at the panel "Meet the editors" at the Annual Conference of the Academy of International Business held in Boston. There is a need to continue the efforts to publicize the journal, and assistance in this respect would be appreciated. The use of Internet to advertise the journal and to issue calls for papers is under active consid-

eration. The journal has been listed in the following indexes: Public Affairs Information Service (PAIS), Contents of Recent Economic Journals (CREJ), Index to International Statistics (IIS). Efforts are being made to include the journal in other indexes, such as the Social Science Index.

Guidelines for Contributors

I. Manuscript preparation

Authors are requested to submit three (3) copies of their manuscript in English (British spelling), with a declaration that it has not been submitted for publication elsewhere, to:

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UNCTAD
Division on Transnational Corporations and Investment
Room E-8006
Palais des Nations
CH-1211 Geneva 10
Switzerland
Tel.: (41) 22 907 5707
Fax: (41) 22 907 0194
or
to e-mail address:
Fiorina_Mugione_at_UNCTAD#2@un.org

Articles should, normally, not exceed 30 double-spaced pages (12,000 words). All articles should have an abstract not exceeding 150 words. Research notes should be between 10 and 15 double-spaced pages. Book reviews should be around 1,500 words, unless they are review essays, in which case they may be the length of an article. Footnotes should be placed at the end of the page they refer to. An alphabetical list of references should appear at the end of the manuscript. Appendices, tables and figures should be on separate sheets of paper and placed at the end of the manuscript.

Manuscripts should be typewritten and double-spaced (including references) with wide margins. Pages should be numbered consecutively. The first page of the manuscript should contain: (i) title; (ii) name(s) and institutional affiliation(s) of the author(s); (iii) address, telephone and facsimile numbers of the author (or primary author, if more than one).

Authors should provide the diskette of manuscripts only when accepted for publication. The diskette should be labelled with the title of the article, the name(s) of the author(s) and the software used (e.g., WordPerfect, Microsoft Word etc.). WordPerfect is the preferred software.

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II. Style guide

A. **Quotations** should be double-spaced. Long quotations should also be indented. A copy of the page(s) of the original source of the quotation, as well as a copy of the cover page of that source, should be provided.

B. **Footnotes** should be numbered consecutively throughout the text with arabic-numeral superscripts. Footnotes should not be used for citing references; those should be placed in the text. Important substantive comments should be integrated within the text itself rather than placed in footnotes.

C. **Figures** (charts, graphs, illustrations, etc.) should have headers, subheaders, labels and full sources. Footnotes to figures should be lower-case letters and should appear after the sources. Figures should be numbered consecutively. The position of figures in the text should be indicated as:

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Put figure 1 here

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D. **Tables** should have headers, subheaders, column headers and full sources. Table headers should indicate the year(s) of the data, if applicable. The unavailability of data should be indicated by two dots (..). If data are zero or negligible, it should be indicated by a dash (–). Footnotes to tables should be lower-case letters and should appear after the sources. Tables should be numbered consecutively. The position of tables in the text should be indicated as:

****

Put table 1 here

****

E. **Abbreviations** should not be used, except for FDI (foreign direct investment) and transnational corporations (TNCs).

F. **Bibliographical references** in the text should appear as: "John Dunning (1979) reported that . . .", or "This finding has been widely supported in the literature (Cantwell, 1991, p. 19)". The author(s) should ensure that there is a strict correspondence between names and years appearing in the text and those appearing in the list of references.

All citations in the list of references should be complete. Names of journals should not be abbreviated. The following are examples for most citations:

Bhagwati, Jagdish (1988). *Protectionism* (Cambridge, Massachusetts: MIT Press).

Cantwell, John (1991). "A survey of theories of international production", in Christos N. Pitelis and Roger Sugden, eds., *The Nature of the Transnational Firm* (London: Routlege), pp. 16-63.

Dunning, John H. (1979). "Explaining changing patterns of international production: in defence of the eclectic theory", *Oxford Bulletin of Economics and Statistics*, 41 (November), pp. 269-295.

United Nations Centre on Transnational Corporations (1991). *World Investment Report 1991: The Triad in Foreign Direct Investment.* Sales No. E.91.II.A.12.

All manuscripts accepted for publication will be subject to editing to ensure conformity with United Nations practice.

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