Future trends in Japanese foreign direct investment

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For the past four years, the Research Institute for International Investment and Development of the Export-Import Bank of Japan has conducted annual questionnaire surveys on foreign direct investment (FDI) by Japanese manufacturing transnational corporations (TNCs) that have more than three foreign affiliates (Tejima, 1992, 1993 and 1994). This research note contains the principal findings of the most recent survey, which covers fiscal year 1994.[1] Questionnaires were sent to 700 manufacturing TNCs at the end of July 1994. Three hundred and eighty two firms had responded by September 1994. The FDI undertaken by the respondents accounted for about 70 per cent of total Japanese outward FDI realized by Japanese TNCs in manufacturing industries in fiscal year 1993.

The three major research objectives of the surveys were the following:

- To construct FDI statistics with details by industry and region, including both outflows by Japanese parent firms to foreign affiliates and amounts financed by foreign affiliates themselves through reinvestment, bond issues and borrowing from local banks.

- To estimate the future trend of Japanese FDI by region and industry over the short term (fiscal years 1994 and 1995), the medium term (fiscal years 1995-1997), and the long term (fiscal years 1995-2004).

- To research a specific theme related to FDI that is of particular importance in a given year. The current survey dealt with the effect of the appreciation of the Japanese yen since 1993 on the international and domestic corporate strategies of Japanese TNCs.

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[1] The Japanese fiscal year for 1994 covers the period from 1 April 1994 to 31 March 1995.

Reinvestment as a source of finance

The 1994 survey shows that Japanese parent companies accounted for 46 per cent of total FDI, reinvested earnings by foreign affiliates accounted for 44 per cent, and debt and public share issues accounted for the remaining 11 per cent in fiscal year 1993 (figure 1). In contrast, the 1993 survey reported that Japanese parent TNCs accounted for 77 per cent of total FDI and that their foreign affiliates funded 23 per cent through reinvestment or debt (borrowing or bond issues). However, the 1993 survey noted differences in the importance of reinvested earnings and debt by foreign affiliates in total FDI along regional lines. For example, in the Asian newly industrializing economies[2] (NIEs), 38 per cent of FDI consisted of reinvested earnings and debt by foreign affiliates, and in the Association of South-East Asian Nations (ASEAN),[3] reinvested earnings and debt accounted for 45 per cent of FDI. The 1994 survey reveals that the share of reinvested earnings in total FDI became most important in Latin America (83 per cent of FDI flows), the Asian NIEs (61 per cent), and North America (47 per cent) in fiscal year 1993. Conversely, the low levels of reinvested earnings in China and ''other Asia'' reflect the short history of Japanese FDI in these regions and, hence, the dominance of FDI by Japanese parent firms in these cases.

The business performance of Japanese affiliates in North America has been poor compared to that of affiliates in other regions. For example, in the survey, Japanese TNCs ranked the United States and Canada sixth in terms of profitability, behind ASEAN, the NIEs, ''other Asia'', China and Latin America.

The end of the Japanese FDI recession?

Another finding of the 1994 survey is an indication that the continuous decline in outward FDI from 1989 through 1992 has been reversed (annual outward Japanese actual FDI flows declined from $68 billion to $34 billion over this period). In 1993, outward FDI increased slightly to $36 billion.[4]

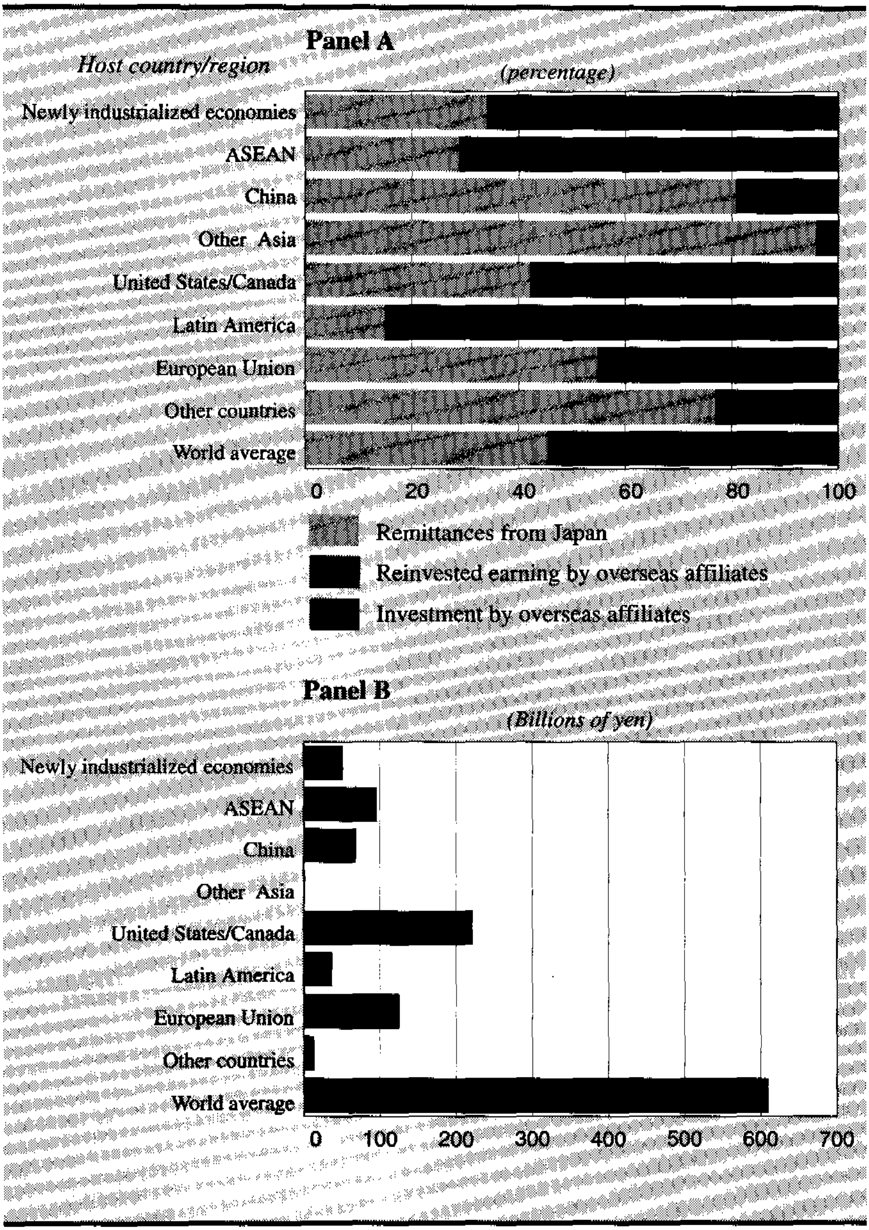
[2] Hong Kong, Republic of Korea, Singapore and Taiwan Province of China.

[3] Members of ASEAN are Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand. Data for Singapore, however, are throughout text and tables reported only under NIEs.

[4] Notifications-based statistics.

Figure 1. Survey results on the financing of foreign direct investment by Japanese transnational corporations, 1993[a]

(Billions of yen and percentage)



Source: Survey questionnaire. Number of respondents 237.

[a] Data refer to fiscal year ending in March.

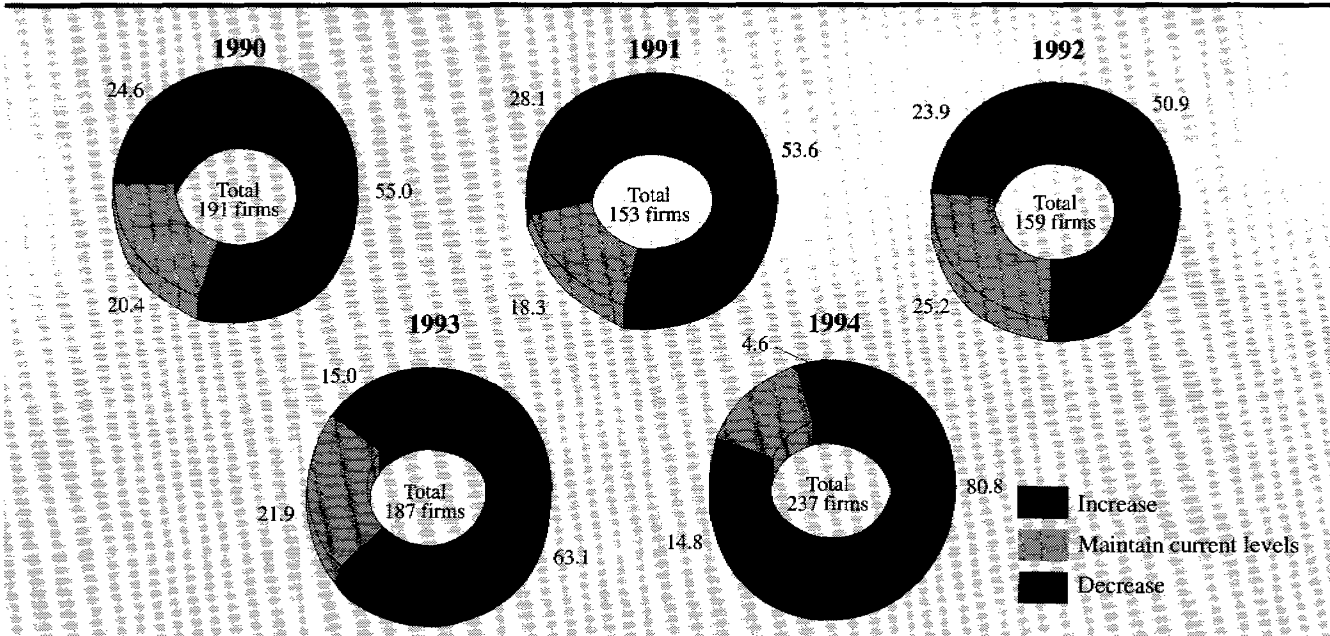
The 1994 survey suggests that the upward trend will continue, with the percentage of firms intending to increase annual FDI in the medium term rising from 51 per cent in 1992 to 89 per cent in 1994 (figure 2). The upward trend in the planned FDI of Japanese TNCs has been stimulated mainly by auto-parts and electric/electronic parts industries (figure 3 and tables 1 and 2). The 1994 survey also indicates that increased FDI by the auto-parts and electric/electronic parts industries has been motivated by a desire to serve both local and global customers. The survey reveals that estimated FDI for fiscal year 1994 will be 10 per cent higher than in fiscal year 1993. The auto-parts and electric/electronic parts industries accounted for 64 per cent of that increase.

With respect to auto-parts manufacturers, the first and second most important motives for FDI in fiscal years 1993 and 1994, on average, were ''preservation and/or expansion of market share'' and ''supplying parts to an assembly manufacturer'' (table 3). In fiscal year 1993, the next most important factors were ''export to a third country'' and ''securing inexpensive labour forces''. With respect to ''supplying parts to an assembly manufacturer'', this motive became more important in the NIEs, the United States and Canada, and Latin America, but less important in ASEAN, China and the European Union. Interviews with auto-parts companies in Japan also revealed that their affiliates in the United States and Canada have improved their business performance by expanding their sales of parts and components to the big three United States-based automobile companies (General Motors, Chrysler and Ford), as well as to the United States affiliates of Japanese TNCs.

With respect to the Japanese electric/electronic TNCs (table 4), ''preservation and/or expansion of market share'' and ''shifting existing overseas investment bases'' were the first and second most important motives for FDI, on average, in fiscal years 1993 and 1994. Foreign-direct-investment patterns in that industry reflect a strategy of producing standardized products in the Asian NIEs, ASEAN and China and higher value-added goods in Japan. This is reflected in the growing importance of ''shifting existing overseas investment bases'' as a motive for Japanese FDI in the NIEs, ASEAN, China, and the United States and Canada. The growing importance of this factor for FDI in these regions reflects their lower wage costs, compared with Japan, as well as promising domestic markets. Of note also is the identification of trade barriers in the United States and Canada as an increasingly important motive for FDI in this industry.

Figure 2. Foreign-direct-investment plans of Japanese transnational corporations: survey results, 1990-1994[a]

(Percentage)

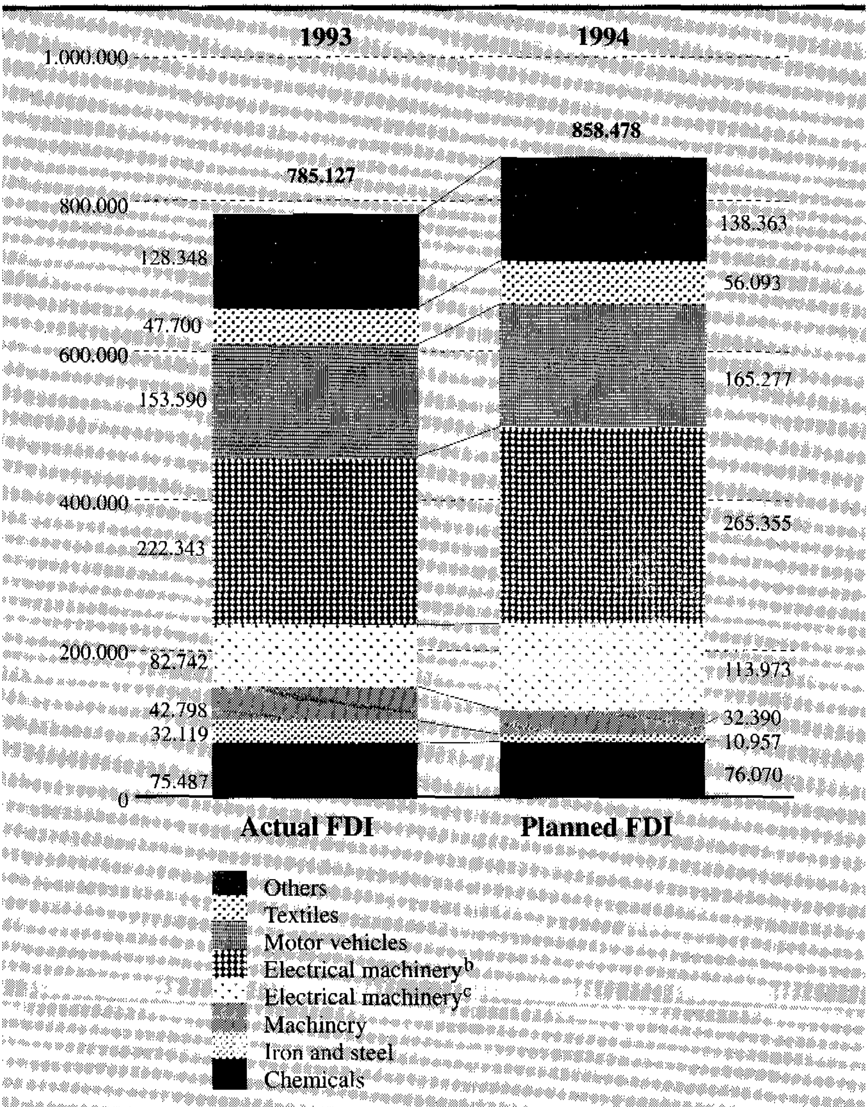


Source: Survey questionnaires.

[a] Data refer to fiscal years ending in March.

Figure 3. Actual and planned foreign direct investment of Japanese transnational corporations: survey results, 1993 and 1994[a]

(*Millions of yen*)



Source: Survey questionnaires.

[a] Data include 298 TNCs responding to the survey questionnaires and refer to fiscal years ending in March.

[b] Assembled.

Table 4. Motives for foreign direct investment by electric/electronic parts manufacturers, by region, 1993 and 1994

(Percentage share of respondents)

	Newly industrializing economies[a]		ASEAN[b]		China		United States/ Canada		European Union		Latin America		Average across regions	
Motive for investment	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994
Preservation and/or expansion of market share	58	40	47	40	23	17	85	44	83	63	100	50	66	92
Development of new market	0	10	0	0	35	30	14	0	0	0	0	0	8	7
Exports to Japan	0	15	29	11	35	39	0	0	0	0	0	0	11	11
Export to a third country	33	15	35	18	35	17	0	0	0	9	0	0	17	10
Response to voluntary export restraints, dumping tariffs and other trade regulations by the host country	0	0	0	0	0	0	14	22	16	9	0	25	5	9
Promotion of specialization within the firm	8	5	17	11	5	4	14	11	16	9	50	25	18	11
Shifting existing overseas investment bases	16	25	11	33	17	30	14	44	33	18	50	25	24	29
Securing inexpensive labour forces	0	5	35	18	47	52	0	0	0	0	0	0	14	13
Supplying parts to an assembly manufacturer (including Japanese foreign affiliate)	0	10	47	37	17	17	0	0	16	18	0	0	13	14
Securing stable supply of raw materials and natural resources	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Requests from the host country	0	0	5	0	0	4	0	0	0	0	0	0	1	1
Avoiding foreign exchange risk	8	10	29	18	11	8	14	22	0	0	0	0	10	10
Development of products adapted to the market	0	0	0	0	0	4	14	11	0	0	0	0	2	3

Source: Survey questionnaires.

[a] Hong Kong, Republic of Korea, Singapore and Taiwan Province of China.

[b] Brunei Darussalam, Indonesia, Malaysia, Philippines and Thailand.

As a destination for planned FDI over the next three years (1995-1997), China is the favoured host economy, followed by Thailand, the United States, Indonesia, Malaysia, Viet Nam, Singapore, Taiwan Province of China, United Kingdom, Philippines and India. Over the long term (ten years), the countries targeted in the FDI plans of Japanese manufacturing TNCs are slightly different from those targeted in the medium-term plans. Over the long term, China remains the most popular host economy, followed by Viet Nam, Thailand, the United States, Indonesia, Malaysia, India, Mexico, Singapore, Taiwan Province of China and Philippines. Therefore, Viet Nam, India and Mexico are ranked higher in the long-term than in the medium-term investment plans.

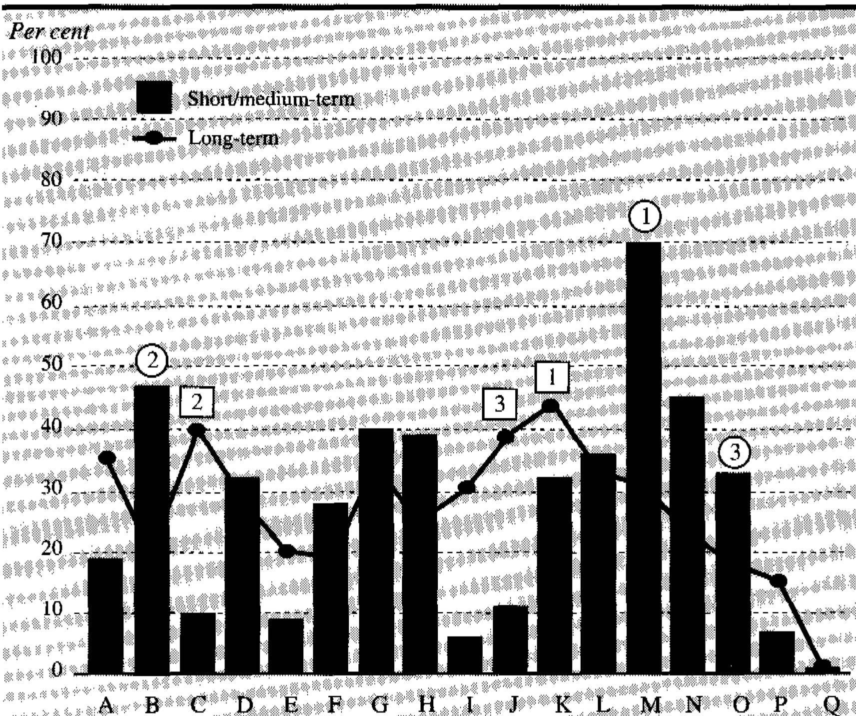
The appreciation of the yen

Regarding the effects of the appreciation of the yen on the competitiveness of Japanese TNCs, 71 per cent of the 377 respondents stated that their international competitiveness had been damaged. The auto-assembly and auto-parts industries, in particular, expressed this view. Within that group of respondents, 90 per cent of assemblers and 75 per cent of auto-parts manufacturers held this view. The share of firms in the electric/electronic industries holding the same view was lower: 71 per cent of assemblers and 67 of parts manufacturers. The reason for this different view is probably the longer history of FDI and overseas production in the electric/electronic industries than automobile industries. Japanese electrical-equipment parts manufacturers produced 23 per cent of their output outside of Japan in fiscal year 1993, compared to 13 per cent for automotive-parts manufacturers.

Regarding the effects of yen appreciation on future FDI plans, 54 per cent of 369 respondents intended to increase FDI, while 36 per cent indicated that the appreciation has not affected their FDI plans (these firms could also increase their FDI, but these increases will not be motivated by the yen appreciation). A higher proportion of TNCs in the electric/electronic assembling (78 per cent) and electrical parts industries (75 per cent) plan to increase FDI in response to the yen appreciation, while auto-parts and auto-assembly companies have indicated that they are less likely to expand FDI under these circumstances. This counter-intuitive finding (that the industry claiming the most negative impact from appreciation has the most passive response in terms of FDI plans, and vice versa) reflects the fact that the FDI plans of TNCs are motivated by long-term strategic considerations and can be insensitive to exchange-rate fluctuations (depending partly upon whether or not these are perceived as long or short-term in nature).

Figure 4. The strategies of Japanese transnational corporations: ranking of short, medium and long-term investment plans, 1994[a]

(Percentage)



(2) A) Increasing overseas production of high-value-added products for local market

[2] B) Increasing overseas production of standardised commodity products for local market

C) Increasing overseas production of high-value-added products for world market

D) Increasing overseas production of standardised commodity products for world market

E) Increasing overseas production of high-value-added products for Japanese market

F) Increasing overseas production of standardised commodity products for Japanese market

G) Increasing overseas production

H) Increasing overseas parts procurement

I) Streghthening of R&D capability of foreign affiliates

[3] J) Exchange of technology, information and human resources by alliances with foreign companies

[1] K) Increasing domestic production of high-value-added products and R&D

L) Restructuring of Japanese parent TNCs (more specialization or diversification)

(1) M) Decreasing production cost of Japanese parent TNCs

(3) N) Increase of the import of cheaper procurements

O) Cutting down the domestic distribution cost (rationalization of the distribution system, etc.)

P) Exchange of technology, information and human resources by alliances with other Japanese companies

Source: Survey questionnaires.

[a] Data refer to fiscal year ending in March.

Regarding the effects of the appreciation on domestic employment, 25 per cent of the 353 respondents replied that they will decrease their domestic employment and increase employment in their foreign operations. However, only 3 per cent of the 346 respondents answered that they will lose technological capability, including the ability to produce new and more innovative products at the Japanese parent firms' domestic operations because of the increase of overseas production. Japanese TNCs are therefore relatively more pessimistic about the effect of appreciation on domestic employment than upon technological advantage.

Conclusions

The 1994 survey suggests that Japanese FDI will increase in the medium term (1995-1997). Automobile-parts industries and electric/electronic industries have the most ambitious FDI plans. Generally, the first priority of Japanese TNCs over the period 1995-1997 is to reduce manufacturing production costs of domestic operations (figure 4). The second priority is to increase the overseas production of standardized goods and the third priority is to import lower priced spare parts and components from other countries in order to reduce domestic production costs. Related to this objective is FDI for the production of parts and standardized goods in order to maintain international competitiveness of both Japanese parent firms and foreign affiliates. Over the long term (ten years), production of higher value added goods, research and development and strategic alliances will become the main strategic objectives of most foreign affiliates and Japanese parent TNCs.

The survey also suggests that future Japanese FDI will be characterized increasingly by international production networks. The shifting of production in response to the appreciation of the yen will likely have a negative effect upon domestic employment. However, the survey reveals that Japanese companies view further internationalization as indispensable for maintaining the international competitiveness of Japanese parent firms in the manufacturing sector, as well as that of their foreign affiliates. The growing globalization of Japanese firms is also likely to decrease Japanese trade imbalances with Asian and European countries and the United States. ■

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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 economic 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 standards. 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 consideration. 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:

The Editor
Transnational Corporations
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.

Transnational Corporations has the copyright for all published articles. Authors may reuse published manuscripts with due acknowledgement. The editor does not accept responsibility for damage or loss of manuscripts or diskettes submitted.

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:

****

Put figure 1 here

****

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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