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Panel H-6 MOVEABLE FEAST ? CAPITAL EXIT, INVESTMENT, AND FIRM BEHAVIOUR IN THE EU

THE REAL COSTS OF JAPANESE FOREIGN DIRECT INVESTMENT TO THE EUROPEAN UNION - WITH SPECIFIC REFERENCE TO THE UK, BELGIUM AND EIRE

T.D. BREVERTON, UNIVERSITY OF WALES INSTITUTE, CARDIFF
Colchester Avenue, Cardiff, Wales CF3 7XR

INTRODUCTION - FLOWS OF FOREIGN DIRECT INVESTMENT

" We are rapidly approaching a new level of economic integration through direct investment: a cascading of flows from more countries into more sectors and involving more actors than ever before. Unlike trade, these foreign direct investment flows represent long-term commitments by countries to build viable businesses in one another's markets " [D.Julius, Global Companies and Public Policy, Royal Institute of International Affairs, London 1990]

However, countries do not trade, companies trade. Similarly, countries do not build factories overseas or take over another country's businesses, transnational corporations [TNC's] do. The hypothesis of this paper is that countries with an excess of successful, powerful TNC's will, in the long term, cause a significant deterioration in the competitiveness of other countries. The nature of uncontrollable ownership causes a growing imbalance of economic power, leading to problems of funding adequate welfare provision in less powerful states.

In late May 1995, an OECD Conference is scheduled specifically to discuss Foreign Direct Investment [FDI, which consists of building greenfield sites, acquisitions or joint ventures]. FDI rose four-fold between 1985 and 1993, twice as fast as world trade, but there are very few rules in existence to govern it. From a position of hostility, much of the developing world is now actively encouraging FDI, competing with the traditional markets of the developed world. As can be seen from the latest UNCTAD statistics, the ratio of inward flows between developed and developing economies has more than halved in just 9 years, and it is expected that developing countries will overtake within 3 years. From the table, we can see a rapidly closing gap.

FOREIGN DIRECT INVESTMENT	$bn	$bn
INWARD FLOWS		
a] Developed Countries	43.1	117.0
b] Developing Countries	13.7	80.3
a:b	3.1	1.5
OUTWARD FLOWS		
a] Developed Countries	52.5	191.9
b] Developing Countries	1.2	12.1
a:b	43.8	15.9

By the late 1980's, the EC stock of world inward investment was c.23%, or 34% if intra-EC FDI was included. The UK and Germany were attractive as host economies over a long period, while Belgium was prominent from the late 1950's. The ratio of inward FDI stock now varies from around 5% [France and Norway], and c.10% [Germany and Spain] to over 20% [UK, Eire and Belgium].

DIRECT INVESTMENT FLOWS - SELECTED COUNTRIES $m

COUNTRY		1989	1990	1991	1992
UK	30369	33099	21141	19148	
INFLOW					
OUTFLOW		35191	16969	17865	15138
BALANCE		-4822	+16130	+3276	+4010
BELG/LUX		6731	7517	8923	7959
INFLOW					
OUTFLOW		6114	5957	6068	6699
BALANCE		+617	+1560	+2855	+1260
FRANCE		9552	9231	11073	16323
INFLOW					
OUTFLOW		18137	27112	20529	18205
BALANCE		-8585	-17881	-9456	-1882
GERMANY		7126	2333	3718	3874
INFLOW					
OUTFLOW		18137	21112	20529	18205
BALANCE		-11011	-18779	-16811	-14331

Source - Eurostat 1993 Yearbook

We can see, from the above table, the continuing problems of Belgium and the UK, the fact that France is heading the same way, and that Germany is extremely strong in building up its overseas investments upon a cumulative basis.

Because of developments in financial services and foreign direct investment, there has been a reversal or deterioration in the credit/debit status of nations.

Net Outstanding Assets and Liabilities as a % of GDP

Country	1985	1993		
USA	1.0	-10.4		
Japan	9.6	14.4		
Germany		7.7	11.6	
France	-2.2	-6.0	est 1992	
Italy	-7.6	-11.3	est 1992	
UK	21.7	3.5	est 1992	
Canada	-35.5	-39.7		
Netherlands		23.9	13.0	est 1992
Spain	-9.5	-17.5	est 1991	
Sweden	-24.4	-27.1	est 1991	
Switzerland		111.0	99.5	

Source: OECD Economic Outlook [56] December 1994

Country	Trade Balance 1978 £bn		Trade Balance 1995 £bn est.	and Liabs. 1993 £bn	Investment Income 1995 £bn	Stocks of Foreign Assets
US	-33.9	-186.9	-11.1	2268		
Japan	24.6	154.1	55.1	2180		
Germany		24.9	68.9	1.4	1268	
France	0.7	8.6	-8.2	851		

Italy	3.4	47.7	-17.7	416
UK	-3.1	-17.6	5.5	2033
Canada	4.2	12.9	-21.7	194
Austria	-3.3	-9.0	-1.3	
Belgium-Lux		-2.5	9.4	2.9
Denmark		-2.4	6.4	-4.3
Greece	3.5	-12.9	-1.9	
Eire	-1.1	9.6	-5.1	
Netherlands		-0.2	18.5	0.1
Portugal	-2.0	-8.1	-0.1	
Spain	-6.1	-18.9	-8.2	
Sweden	0.3	13.9	-6.5	

CHANGING INVESTMENT FLOWS
INWARD INVESTMENT $ Million Source:OECD

	1990	1991	1992	1993	
USA	48015	23976	2378	31519	
UK	32897	15934	18165	14449	
FRANCE		9040	11073	15894	12141
BELG/LUX		8162	8913	10791	8516
SPAIN	13681	10428	8115	7184	
HOLLAND		8765	4934	5883	6803
SWEDEN		2029	6315	241	2438
NORWAY		1004	-291	720	2058
DENMARK		1133	1530	1015	1584
AUSTRIA		647	159	940	960
FINLAND		787	-247	394	393
JAPAN	1753	1368	2728	127	
SWITZ	4458	2613	465	-	
PORTUGAL		2608	2451	1914	-
GREECE		1005	1135	1144	-
IRELAND		99	97	102	-
GERMANY		2523	4263	2422	-286

In 1993 for the first time more Japanese companies pulled out of West Germany than went in. In the 1980's, the USA accounted for 25% of FDI in the EU, followed by Japan with 13%, but their commitment is dropping. The Pacific Rim is the new growth area. The USA is involved in 12019 projects in China and 7812 in Japan. The Bank of Japan says that China is the favourite investment target of Japanese companies, followed by Indonesia and the USA.

"Partly as a carefully conceived global strategy and partly forced by protectionist fears - as witnessed by her schizophrenic attitude towards Europe 1992 - the value of Japan's stock of FDI rose from under $22.2bn in March 1978 to $352.4bn in March 1992 " [The Globalisation of Business, JH Dunning, Routledge 1993]. The direct investment stake in European manufacturing industry of Japanese TNC's was around a fifth of that of the USA at the beginning of the 1990's. Yet for all sectors, the value of the Japanese stake was $68bn in March 1992, 25.4% of the US stake of $224.6bn in December 1991. This reflects the higher relative Japanese stake in European service industries [- see Does Ownership Matter, M.Mason and D.Encarnation for a detailed breakdown of market shares]

Nearly a fifth of the £220bn invested in UK industry over the past 5 years has come from overseas. The percentage of foreign-owned assets in the UK in relation to its total net assets - not including financial services and oil, is now over 20%, compared to 13% five years ago. The ownership level of financial services is increasing with takeovers like that of The Midland Bank by Hong-Kong Banking Corporation, and city brokers and insurers by Swiss, German, Dutch, US and Japanese companies

[40% of employees in The City of London work for foreign firms], and well over 25% of manufacturing is foreign-owned.

1989	EC Affiliates of Japan co's		EC Affiliates of US co's
Number of affiliates		1106	7391
Total employees	120,300	2,540,000	
Total assets	$118bn	$658bn	
Employees per affiliate		108	344
Assets per affiliate		$107m	$89m
Assets per employee		$932k	$243k

[source - Does Ownership Matter]

The European Economic Area is particularly prone to FDI as its ratio of imports to GNP is particularly high, as FDI substitutes exports:

SUPERBLOC 1991		EU	USA	JAPAN
INDICATORS				
TOTAL POP.	379m	360m	123m	
TOTAL GNP US$		7087bn	6568bn	3140bn
GNP PER HEAD	18700	18300	25400	
EXPORTS	1700bn	576bn	339bn	
IMPORTS	1773bn	645bn	255bn	
EXP/IMPORTS	-73	-69	+84	
IMPORTS:GNP	25%	10%	8%	

In the last 20 years, the economic significance of Inward Investment to most EU countries has risen significantly, as has outward investment. The TNC intensity of economic activity [measured as the % of inward plus outward stake to GNP] had doubled between 1970 and 1990 to over 40% in The Netherlands and UK, 30% in Belgium, and over 15% in Germany, Greece and Eire.

One of the effects has been that " the core of Europe gets the higher functions - France, Germany and Holland get the R&D plants. But Britain gets assembly work. It is competing with Eastern Europe and the Far East for assembly jobs "
[M.Danson, quoted in EuroBusiness March 1995].

We can place this movement against a recent background of rationalisation across the EU ...." The completion of the Single Internal Market in 1992 was a great incentive for non-EC companies to set up production facilities in Europe in order to jump both the tariff and non-tariff barriers that will continue to exist for external trade after they have been [eventually] eliminated from intra-EC trade, and in order to prevent the entry of new EC-based firms into the industry. Non-European firms already established in the bloc will, on their part, have an incentive to rationalise production in order to exploit economies of scale and learning, since, once all barriers to trade have been removed, there is no economic justification for multiple plants producing the same goods in a region" The Transnational Enterprise and Regional Economic Integration, P.Robson & I.Wooton, Blackwell 1993].

While politicians and companies review progress towards full European economic integration, the lack of economic growth has highlighted questions about Europe's continuing ability to attract a significant share of highly mobile international business investment. A drop in inward activity by some of the biggest corporate investors has triggered more intense intra-EU competition for a slice of the diminishing cake. It is predicted that the EU's share of world GDP will drop from 22% in 1990 to 17% in 2010, while Asian economies will rise from 18% to 28% over the same period. No-one seems to disagree with this scenario, and the free-market view, which has taken over all Western governmental policy-making, is that European labour markets are too rigid, and the costs of employing workers is too high.

Thus FDI is seen as the universal answer, forcing countries to vie for inward investment using the lowest common denominator of labour costs, taxes and social protection.

THE TREND TO GLOBAL OLIGOPOLISATION

In the 1970's there was the notion that each nation should have a "national champion" - an airline, motor manufacturer, computer manufacturer etc., and this was subsumed into a European focus in the 1980's. However, in 1991, European firms only had 10% of world output compared with 46% for Japanese and 38% for American firms [Does Ownership Matter, ibid - Susan Strange's contribution]. Europe is the largest market of the three, so there is obviously a major structural imbalance.

The problem was that the national, then regional, focus favoured by European policymakers, was bypassed by a globalisation. Successive waves of FDI into Europe, led by America, then Japan, and now the "tiger" nations of the Far East, have ruined the equation. Market forces in traditional economics lead to oligopoly, where a market-leader sets the price and competition is then based upon non-price factors. This happened in America and the UK after World War Two, as their native industries were still intact, and world-wide demand during reconstruction assured easy sales domestically and internationally. To face growing US influence in Europe in the 1950's to 1970's, nations turned to look for European "champions" [i.e. price leaders with a leading market share].

Unfortunately, Japanese companies did not believe in oligopoly theory, and entered established markets not only competing upon non-price factors [cars with "free" extras] but also on price. They attacked weak, semi-protected markets with market leaders who did not have the financial reserves or ability to hold their share. When it looked as if barriers might rise, they simply started manufacturing/assembling in the EU, assisted by European governments. Indeed, in the 1980's, it appeared that the UK Conservative Government was practising " the economics of Sparta " - if any British firm could not compete against subsidised foreign imports and FDI, it was left to die. This ` survival of the fittest ' policy, the result of right-wing, laissez-faire influences, ensured that British companies had to shed labour and lose market share [for ever] simply to survive. [Incidentally, recent work has shown that the governments of Japan, Korea and Taiwan have followed vigorous interventionist policies, guiding the market towards planned structural change, and only opening domestic markets to Free trade when it became useful to them - A. Singh, International review of Applied Economics Vol 7 No 3 1993] .

Japanese internationalisation has been a "stratified advance" - Japan's factories develop and produce the newest high technology goods, which in time become standard products in the process of accelerated commoditisation. Switching manufacture to Indonesia, Malaysia, Singapore and Thailand serves two purposes, enabling the home plants to turn to the next stage of technology AND getting over voluntary export quotas, tariffs etc. upon Japanese manufactures. Future waves of investment from Korea, Malaysia etc are now following the American and Japanese waves.

We are now in the stage of moving to global oligopolisation, in banking, entertainment, auto manufacture, semiconductors and the like. To protect their market shares, huge companies like Toyota manufacture all over the globe, and focus on cost leadership, covering all markets and sectors by differentiated products, and also niche-focus by offering all types of vehicle from the currently popular off-roaders to muscle-cars, micro-cars and luxury limousines. Toyota does not follow an "either-or" generic strategy as proposed by Michael Porter - it follows all four in the matrix. It also, like all Japanese companies, does not follow the time-honoured and slow Western approach to new product development - it constantly "churns" out product innovations, using parallel product development techniques.

Recent conversations with Ford personnel reveal its "Global 2000" strategy to be based upon a belief that there will only be around 5 big players in the next few years [- perhaps Ford/Mazda, Toyota, GM/Saab, Chrysler/Daimler, Volkswagen/Audi/BMW/Mercedes/Rover, Renault/Peugeot/Citroen/Volvo, Fiat/Nissan ?] Leading French bankers believe that European banks must merge to keep a global presence, and that the present "Big 4" British banks [National Westminster, Barclays, Lloyds and Hong-Kong Shanghai/Midland] will be reduced to two in the next 5 years.

5 companies control 77% of the world cereal trade, 3 companies have 80% of the banana trade, 3 have 83% of cocoa, 3 have 87% of tea, and 4 control 87% of tobacco. The top 20 agrochemical countries account for over 95%, 12 companies produce over 80% of the world's cars - the list goes on, and global concentration is increasing yearly.

Transnational Corporations [TNC's] are both a stimulus for globalisation and a response to it - there is a spiralling of economic power into fewer and fewer companies [and networks/alliances of companies]. Regional integration has lowered the thresholds for this movement, and overseas investment by TNC's is now a far greater force in the world economy than world trade. In 1992, sales generated by TNC's outside their country of origin totalled $5.5 trillion, $1.5 trillion more than world total exports. TNC's control a third of the world's private sector assets .

The world's largest 350 companies have combined sales totalling a THIRD of industrialised countries' GNP's. International trade WITHIN these companies accounted for almost 40% of world merchandise trade. In most industrial sectors 5 firms account for at least half of sales. Five hundred firms control 2/3 of world trade.

Japanese firms have traditionally preferred greenfield investments to acquisition and capital participation - US/UK companies, in thrall to the Victorian share capital system, need to make quicker returns to satisfy share-holders. Only where European industries have a clear competitive advantage and/or there is a need to become internationally competitive in a very short time frame will Japanese companies acquire local producers. With the increasing need for "speed to market" it is interesting that of all new Japanese investment in Western Europe in 1889 and 1992, nearly half took the form of alliances and mergers [Dunning ibid].

It has been estimated that foreign-owned enterprises now account for 21.5% of net output and 14.9% of employment of British industry [Japanese Manufacturing Investment in Europe, Roger Strange, Routledge 1993]. Other estimates put the foreign share of ownership of UK manufacturing at over 25% and rising

TRANSFER PRICING - THE REPATRIATION OF PROFITS AND THE EFFECTS ON THE GNP/GDP RATIO OF TNC's IN EUROPEAN COUNTRIES, WITH PARTICULAR REFERENCE TO THE UK, BELGIUM AND EIRE

"Transfer Pricing is the price used for internal sales of goods and services between the divisions of a business enterprise [Multinationals and Transfer Pricing, ed. AM Rugman and L.Eden, Croom Helm 1985].

President Clinton claimed upon taking office that he would raise $45bn over 4 years by combating tax avoidance by foreign-owned corporations that shift profits outside the USA by juggling transfer prices. President Bush's Commissioner of the IRS had stated that 72% of such corporations paid no US taxes. It is thought that the loss of state income may be as high as $20bn p.a. in the USA, where around 11% of industry is foreign-owned. In the UK, with over 25% of manufacturing foreign-owned, and a slacker tax enforcement regime, tax avoidance may be around £6bn - £9bn p.a., more than state expenditure on defence, and amost as much as is spent upon education. Research by the author [- Causes and Effects of Relatively Declining Corporate Contributions to Government Revenues, ESRC SEM Programme COST/A7 Action Conference, 1994] showed that established Japanese multinationals operating in the UK paid virtually no taxation, and were in net receipt of UK grants and incentives.

British multinationals alone are being targeted by the Inland Revenue for £1bn in underpaid tax, following the IRS's success in reclaiming £1.3bn in recent years. Recent claims from the IRS include a $575m bill for Nissan, a $466m action against Amoco, and a $367m claim against Nestle. [Sunday Times 9/10/1995]" In its biggest known victory, the IRS made its case that Japan's Toyotas had been systematically overcharging its US subsidiary for years on most of the cars, trucks and parts sold in the United States. What would have been profits from the US were wafted back to Japan. Toyota denied improprieties, but agreed to a reported $1bn settlement, paid in part with tax rebates from the government of Japan " [Newsweek 15/4/1991]......." Yamaha Motor paid only $5272 in corporate tax to Washington over 4 years. Proper accounting would have showed a profit of $500m and taxes of $127m".

In 1992, the latest full year that could be examined, 20 Japanese companies in the UK [belonging to 12 TNC's] paid only £44.1m in taxes, against a combined turnover of £11.2bn. Against the defence that 1992 may have been a poor year for the 20 companies, a random sample of 33 well-known UK companies was also assessed by the author [- conference paper referred to above].

Tax as a % of sales is the most common method of assessing tax avoidance, and the UK companies showed a fairly solid rate for the 5 years to 1992/93 as follows:

1988/89	1989/90	1990/91	1991/92	1992/93
4.4%	3.9%	3.8%	3.8%	3.8%

We might thus expect a similar return in the UK, and a similar analysis was carried out upon Japanese company returns in the UK and back at their Japanese head office:

JAPAN TAX PAID	% OF SALES	UK TAX PAID	Deficit

1988-1993
A defence given by Japanese companies was that they are " engaged in low-margin, low value-added activities " [Sunday Times Insight Report 1992] - if this is the case, why did the UK government attract them, as this type of company is the exact opposite of that which successive Conservative governments claimed to attract to the UK ?

COMPANY	YEARS IN UK	TAX AS % OF SALES
HONDA	9	[3.3]
TOSHIBA CONSUMER	11	[0.3]
MITSUBISHI CORP	5	0
NISSAN	5	0
HITACHI CONSUMER	8	0
AIWA	9	0
TOSHIBA UK	11	0.1
MATSUSHITA	11	0.2
MITSUBISHI ELEC	10	0.2
TOSHIBA INT EUROPE	4	0.5
BROTHER	7	0.7
TOSHIBA ELECTRONIC	4	0.8
SONY UK	9	0.9
HITACHI EUROPE	5	0.9
SONY UTD KINGDOM	4	1.3
SHARP ELECTRONICS	11	1.4

TOYOTA GB	9	2.0
YAMAZAKI	7	2.1
WEIGHTED AVERAGE		0.46%

The weighted average of under half a percent compares with average domestic UK company ratios of over 5% for these periods.

According to latest OECD statistics, direct taxes paid by corporations in the UK declined from 3.5% of GDP in 1982 to 2.4% by 1992. As GDP is over £600bn, there is a loss of £6.6bn, which fits with the author's previous research. It was not unusual for British companies to pay more than 20% to 30% of their profits in tax, but this had declined to 17% by 1988 for industrial and commercial companies and 13% for financial firms. In the last year for which figures are available, 1992, the figures are 10.8% and 8% respectively.

Since 1989, UK receipts from personal income tax rose 18% and the yield from Customs and Excise Duties rose by 21%. Profits rose by 20%, but the revenues from Corporation Tax dropped by 32% [Victor Keegan in The Guardian, 20/2/95]. If companies had paid increased corporation tax in proportion to their profts, there would have been another £10bn available to The Treasury. Keegan believes that this is "partly a consequence of globalisation. The competition to attract footloose international investment has prompted governments around the world to offer even higher incentives so as to grab the lion's share. Britain was a big beneficiary of the policy to attract overseas investment in the 1980's when international companies poured into Britain. This inflow has dropped off, but there is no doubt that part of the reason why manufacturing is in the middle of an unprecendented export boom is because so many international companies are using the UK as an assembly base for exports to Europe and elsewhere "

Keegan goes on to note that low corporate tax rates [and tacit lack of enforcement] have attracted investment, but it is possible that the taxes generated by these TNC's in terms of extra income tax, VAT, etc. does not offset the loss of corporation tax, when all governments in the Western world are struggling to provide an adequate welfare state provision......" The trouble is that the emergence of a global market place without a global institution to govern it has massively shifted the balance of power from governments to international corporations "....there is a real loss of sovereignty involved in the inability of governments to manage their own affairs....."It is the existence of an unpoliced world market place with instantaneous transmission of money that prevents governments from tapping an even bigger source of revenue than corporation tax ".....''the trillion dollars of foreign exchange dealings that occurs every day on the world's financial markets would yield bountiful revenues to finance pensions and other funds. Yet it can't be easily done because it would require the agreement of every actual and potential financial centre in the world. Otherwise the world's hot money would shift immediately to the remaining tax havens refusing to play ball ". The existence of Leichtenstein, Luxembourg, Switzerland, The Bahamas, etc., etc., allows TNC's to manipulate funds in total secrecy through networks emanating from their central treasuries.. [Half of all global financial transactions go through tax havens].

THE GNP/GDP RATIO

"The process of the Frenchification of the Belgian economy was completed in 1988"...."in 1989 there still persisted a spending deficit of 6.5%, combined with an overall public debt of US$176bn, or 121% of GNP........"Fordist multinational firms remained the backbone of the Belgian economy, but their relative importance diminished as the service sector speeded up"........"in order to stop rampant tax evasion and some fraudulent practices the neo-liberals wanted to lower income taxes and taxation on profits and dividends"......"even the Roman-Red coalition was inclined to subordinate its social and economic policy to the interests of the multinational companies by promoting more flexibility and adopting a `liberal' attitude ". [-The Neo-Liberal Experiment and the Decline of the Belgian Bourgeoisie, Andre Mommen, in Restructuring the Global Political Economy, ed. H.Overbeek, Routledge 1993]

It is difficult to assess the validity of differing statistical data that purport to be a true picture of a nation's GDP and GNP - it is important that a nation's GDP does not exceed its GNP overmuch. The reason is that Gross Domestic Product gives us the wealth created within a country, while Gross National Product gives a fairer picture by adding in surpluses of income flows from overseas investments etc.

Basically, GNP is OWNERSHIP-based, while GDP is LOCATION-based. GDP is the value added by all factors of production, local or foreign-owned, within the country. It excludes income earned abroad and repatriated. GNP, being ownership-based, will treat income obtained from a UK subsidiary of a US firm as US value-added.As an example, prior to the Gulf War, much of Kuwait's vast oil revenue was invested overseas by the Kuwait Investment Office, in Spanish property, Q8 oil stations in the UK, etc., and the inflow from these investments was far more than the outflow from domestic servants and expatriate workers to their families overseas. In contrast, Eire has many TNC's [it claims 1000 foreign companies], transferring profits out of Eire. It also has to pay interest to foreigners on debt held overseas.

ECU bn	GNP	GDP	GNP:GDP %
KUWAIT	28.3	20.9	135
EIRE	26.9	30.9	87

A strong GNP:GDP position is not promoted by many governments, as it would throw the whole basis of their inward investment/deregulatory/ free trade policies into an unwelcome spotlight.

Building up foreign ownership within a developed country can only harm the domestic economy's wealth-creating basis. Without a taxable critical mass of domestically -owned industry/services, states lose more control of their economic sovereignty.

For the EU to be shown to be succeeding in improving its competitive position [wealth] vis-a-vis its major competitors, we would hope to see a rise in the GNP:GDP ratio. [In a perfect Free Trade world, every country would have a ratio of 100].

The ratio of GNP:GDP has been unfavourable since the late 1970's for the EU as a whole, and shows small signs of improving, as more and more national companies are taken over or lose market share to TNC's from outside the EU. A constant ratio below 100 means that there is a constant wealth loss from the a country.

This may be the reason for the massive relative deterioration in Europe's technology and productivity in the last decade or so against the other two Triad members. Between 1991 and 2001, the EU share of global GNP is forecast by the World Bank to drop from 28% to 26%, while the USA decrease is from 30% to 27%, and Japan and the "Tigers" rise from 20% to 24% .

1977	1991	% INCREASE
Billion Current US		$Billion Current US $

EU GNP	EU GNP	409	1528.2	6253.2
EU GDP	EU GDP	407	1544.5	6287.6
GNP:GDP RATIO	GNP:GDP RATIO	-	98.9	99.4

[Figures do not include France, but include the former East Germany, sources Euromonitor, IMF]

Later figures will probably show a further deterioration in those countries where the proportion of foreign ownership is particularly high, such as Eire and Belgium. Since the 1960's, these two countries have developed an extensive range of incentives to foreign investors, some of which drew critical attention from the EC. Both tried to attract "export-oriented" inward investment, and used TNC activity to foster regional development. The Netherlands has also been heavily reliant on inward investment but is also an important capital exporter because of companies like Unilever and Philips. Changing attitudes of European governments towards a pro-inward investment stance are well documented [Dunning ibid].

Of course, more recent Japanese transplants are working their way through capital tax allowances [in Nissan's case worth over £1bn] but there is no real case to be made for companies that arrived years earlier, like Sony and Hitachi.

The importance of export-led TNC's to Belgium and Eire is shown below:

Country	Export as % of GDP
Luxembourg	88.8
Belgium	69.4
Eire	63.1
Netherlands	53.6
Denmark	36.5
Portugal	27.9
EC AVERAGE	26.6
UK	26.1
Greece	25.2
Germany	23.7
France	22.9
Italy	21.0
Spain	18.5
USA	10.9
Japan	10.1

All 4 large EU economies export between 21 and 27% of national output, while smaller economies like the Netherlands, Belgium, Eire and Luxembourg are heavily dependent on exports. Greece, Portugal and Spain have yet to develop large export markets or strong TNC presences. The difference between Denmark [36.5%] and Eire [63.1%] can be explained by the development of branch plants of TNC's in Eire.

The UK's position has been sheltered to some extent by the ownership of large multinationals and overseas assets, but as we shall see, this last buffer is in serious danger, exacerbated by the futility of wiping out four-fifths of Britain's reserves while trying not to devalue before "Black Tuesday".

Current US billion $

BELGIUM	1977	1992	% Increase
GNP	90.3	217.9	141.0
GDP	79.4	218.7	175.0

GNP:GDP		113.7	99.6	-14.1	
EIRE	1977	1992			
GNP	9.3	44.7	381		
GDP	9.5	50.1	427		
GNP:GDP		97.9	89.2	- 8.7	
UK	1977	1993			
GNP	243.3	945.1	288		
GDP	243.3	941.1	287		
GNP:GDP		100	100	-	
ITALY	1977	1991			
GNP	215.3	1127.7	424		
GDP	242.5	1223.0	404		
GNP:GDP		88.9	92.2	+3.3	
LUXEMBOURG		1977	1991	%	
GNP:GDP RATIO			117	106	-11
DENMARK		1977	1992		
GNP:GDP RATIO			98.9	99.6	+0.7
GREECE		1977	1993		
GNP:GDP RATIO			103	100	-3
NETHERLANDS			1977	1992	
GNP:GDP RATIO			100	103	+3
PORTUGAL		1977	1992		
GNP:GDP RATIO			99.4	100	+0.6
SPAIN	1977	1992			
GNP:GDP RATIO			99.3	118.6	+19.3
GERMANY		1977	1993		
GNP:GDP RATIO			100	104.5	+4.5
AUSTRIA		1977	1993		
GNP:GDP RATIO			99.2	99.6	+0.4
FINLAND		1977	1988		
GNP:GDP RATIO			98.5	96.8	-1.7
SWEDEN		1977	1992		
GNP:GDP RATIO			99.8	101.4	+1.6

The Spanish aberration reflects the massive downturn in the economy in 1992-93, but we can see in toto very little improvement across the board. The strongest European economy may be that of the Netherlands, principally because of its "domestic" multinational power. Germany's growing strength is obvious, despite the integration of Eastern Germany into its economy. Germany has tended to attract more higher-quality, research-intensive FDI than the UK, and has strong exports, while its domestic champions like Mercedes and BMW are building up overseas production facilities.

Where the stock of a nation's national debt is large [approaching or exceeding a year's GDP], and the real interest rate is above the real growth rate, the debt problem will become unmanageable because of compound interest - debt becomes unsustainable. Italy's debt to GDP ratio of 125% and Spain's of 67%, with continuing adjustment problems in Greece, Portugal and Belgium will make European Monetary Union almost impossible.

	Gross Public Debt % of GDP		Central Government Borrowing as % of GDP	
	1994	1995	1993	1994
Belgium	135.1	140.0	6.3	5.6
Italy	114.1	125.7	9.7	8.6

Eire	94.2	83.6	2.8	2.8
Greece	86.1	121.3	13.1	11.1
Netherlands	80.2	79.4	4.0	4.5
Sweden	73.8	102.7	13.4	11.1
Portugal	65.3	73.5	5.7	4.7
Denmark	64.0	69.3	3.2	2.6
France	53.4	58.8	5.4	5.5
UK	51.5	54.0	8.3	6.4
Spain	51.5	67.2	7.2	6.4
Austria	49.0	59.9	2.0	2.7
Germany	47.2	61.2	5.5	5.0
Finland	40.0	80.2	9.5	6.5
Luxembourg	8.6	-	2.0	1.7
Swizerland	-	-	4.0	3.5
EU	6.3	5.8		

Source:OECD Economic Outlook December 1994

Running a current account deficit for a long period builds up a large stock of overseas liabilities. This undermines income flows on interest, profits and dividends - IPD. UBS [Union Bank of Switzerland] as reported in The Times [6/4/94] believes that Britain's IPD account will go through a period of sustained weakness and that its net overseas asset stock could turn negative by 1997. In 1986, Britain's overseas assets peaked at c£100bn. By the end of 1993, assets had dropped to £27bn

General Government Net Debt Interest Payments as a % of GDP [OECD est.]

	1978	1995	Swing
Germany	0.9	3.8	-3.7
France	0.6	3.4	-2.8
Italy	4.4	10.6	-6.2
UK	2.6	2.6	-
Austria	1.6	3.8	-2.2
Belgium	3.8	8.2	-4.4
Denmark	-0.5	4.1	-4.6
Finland	-1.1	1.2	-2.3
Greece	1.4	13.8	-12.4
Eire	2.7	3.9	-1.2
Netherlands	2.0	4.4	-2.4
Portugal	2.7	6.5	-3.8
Spain	0.2	5.4	-5.2
Sweden	-1.3	3.0	-4.3
EU TOTAL	1.6 unweighted estimate	5.1 unweighted estimate	-3.5% unweighted deterioration

Weak currencies and economies relate to the net outstanding overseas assets of countries. The US moved from being a net overseas creditor in 1975 to a net debtor to the extent of over 10% of GDP. We can thus compare the relative strengths of the Deutschmark and Yen against the Peseta, Dollar, Kroner and Lira.

NET OVERSEAS ASSET POSITIONS AS % OF GDP

	1975	1985	1993
US	4.1	1.0	-10.4
JAPAN	1.4	9.6	14.4
GERMANY	7.6	7.7	11.6
FRANCE	6.0	-2.2	-6.0
ITALY	-4.6	-7.6	-11.3
UK	1.9	21.7	3.5

CANADA	-30.1	-35.5	-39.7	
NETHERLANDS		14.3	23.9	13.0
SPAIN -7.2	-9.5	-17.5		
SWEDEN	-12.2	-24.4	-27.1	
SWITZERLAND	-	111.0	99.5	

[source OECD Economic Outlook December 1994]

The World Bank projects that the share of world output of developed countries will drop from 55% in 1990 to 37% in 2020, while the developing countries' [inc. E.Europe] share rises from 45% to 63.2% [The Economist 1/10/94]. This has obviously been assisted by Western investment - Thomson Consumer Electronics now employs three times as many people in Asia as it does in France. Fila, the Italian sportswear maker, has moved 90% of its production from Italy to Asian subcontractors. Production is now carried out by 50 independent low-cost subcontractors around the world, as part of "globalisation of sales, sourcing and creativity", according to its MD. Staff in Italy have declined from 2500 in the 1950's to 270. Making a tracksuit in China costs L5000 against L35000-40000 in Italy, and 63% of Fila's output goes to the USA as Italian sportswear. Korea, at 40% higher production cost than China, is now too expensive for Fila.

This movement may assist GNP, at the expense of GDP plus unemployment in the domestic market - Western economies need domestically-owned GDP growth to give a sound infrastructure to support an elementary welfare state. On the other hand, while trying to keep up in global GDP growth states [and the EU has been particularly sluggish with its misallocation of resources to propping up agriculture], it must keep GNP ABOVE GDP.

Between 1982 and 1989, 65,300 US footwear jobs were lost or went abroad. Nike closed its last factory in Maine in the 1980's and established most of its new factories in South Korea. Following strikes over low wages and lack of union rights, Nike relocated production again, making contracts with several dozen factories around the world, including 6 in Indonesia. The Indonesian shoe worker's rate of pay is US$1.03 per day, against the US shoe industry average of $6.94 per hour.
[Indonesian workers produce $135 Nike track shoes for 15 cents an
hour - Michael Jordan made more than $20m in 1992 to promote Nike shoes, more than the entire payroll of the Indonesian factories that made them - Global Dreams: Imperial Corporations and the New World Order, R.J.Barnet and J. Cavanagh, Simon & Schuster 1995] Their wage is LESS than the Indonesian government's figure for minimum physical need. A recent ILO survey found that 88% of Indonesian women working at this wage were malnourished, and most of Nike's workers are women. The labour costs to manufacture a pair of Nikes that sell for $80 in the US is around 12 US cents. [The New Protectionism, C.Hines & T.Lang Earthscan 1993]. Nike sends its designs to a plant in Taiwan which makes a prototype and then faxes instructions to 40 workshops spread over Asia.

One of Nike's "assemblers" is in Portugal, which since 1992 has been Europe's biggest shoe manufacturer after Italy. The shoe industry has boomed on the back of child labour, and nearly 20,000 children under the age of 14 work from 7am to until 10pm making shoes. Each child is paid around Esc50 [30 cents] to cut, sew and assemble a pair of shoes which is then sold for approximately ten times its cost of production, under French, German, British and American labels such as Clarks, Timberland, Kickers and Nike. These firms do not admit to involvement in child labour, as all their work is contracted out. Leather is distributed around poor public housing estates via an intermediary who makes 10% commission, then sent back to the factory where shoes are branded and labelled "Made in Europe". The same scenario applies in the textile industry which employs nearly 70,000 children. Adults are being replaced by their own children - girls as young as 12 work for a miserly Esc30,000 a month [$200]. The pressure group Anti Slavery International estimates that 200,000 children in Portugal work for at least 6 hours a day - 90,000 in construction and agriculture.
[Eurobusiness April 1995]

The Specific Case of Eire:
Later in this paper the special inward investment allowances of Eire are discussed, and Morgan Stanley called it "The Celtic Tiger" in its investment review of September 1994. The country is in a fiscal

surplus for the first time since 1967, with a borrowing requirement less than 2% of GNP. Irish inflation and interest rates are among Europe's lowest, and the balance of trade surplus of $7.85bn continues to be strong while the punt keeps parity with sterling and the DM. Forecasts of GNP growth for 1995 vary around 5.5%, and the new PM took office with a pledge to cut government spending, limit privatisation and keep borrowings below 3% of GNP.
Most impartial observers would see Eire as a growth or hold option, not as an increasingly marginalised assembly operation on the periphery of Europe.

However, Ulster Bank economist Eoin Fahey only estimates 3.8% GNP growth, and cites the impact of multinational profit repatriation as the main reason. [The European 3-9/2/1995]. The accuracy of government statistics is doubted [it seems that Eire has learned from the UK government to be "economical with the truth"]. MMI Stockbrokers expressed doubt about the GNP figures, which it says "leads to illusory economic growth" as net outflows are much larger than those shown by official statistics......"these outflows arise from a combination of the transfer-pricing policies of the country's plethora of foreign multinationals and their repatriation of the resulting inflated profits, boosted by low tax rates " [The European, ibid]
" The bottom line is that Ireland's gross domestic product - on which many EU funding decisions are based - is actually higher than its GNP as a result of the output of exporting multinationals "

Also Government accounts have been allowed to run up deficits of Ir£1bn or more which are not reflected in the national debt. The interest charge of around Ir£2bn a year on a debt of Ir£30bn should therefore run at around Ir£80m more than is officially expected.

A third problem occurs because public spending [not including interest on debt] has increased 18% in 2 years, while take-home pay for public sector workers has increased by 70% since 1987 [compared to 44% for private sector workers]. If public increases had been kept to private levels, the government would have had an extra Ir£700m available in 1995 alone.

The final shadow is the strength of the punt, which tends to shadow the pound, which recently dropped to its lowest ever level against the DM.

MISSING TAX - THE EFFECTS ON WELFARE STATES

In the UK there has been a progressive deterioration of the amount of tax raised from companies as a % of the Public Sector Borrowing Requirement, from around 4% in 1983 to around 2.5% in 1993 [source Lloyds Bank Economic Profile of Great Britain]

The steady ageing of European populations means that those in work will face increasing social costs of looking after the elderly. CS First Boston has calculated that, as a proportion of GDP, unfunded pension liabilities are HIGHER than conventional debt in every EU member except Belgium. [State pensions are paid out of current revenues, not from the lifetime work deductions of a nation's workforce - the study is devoted to unfunded yet unavoidable public sector liabilities, of which pensions form the greatest part]. Adding in unfunded liabilities, the only EU country with total debt below 100% of GDP is the UK. 5 countries
[Belgium, Greece, Italy, Netherlands and Portugal] have debts totalling over 200% of GDP. This is a major reason why EU nations have adopted free labour market policies - to try and reduce this increasing burden and hand it over to the private sector.
"True" Government Debt 1990 [% of GDP]

	Conventional		Unfunded		Tax Claim on	Tax Claim	"True"	Debt
	Debt	Liab's	Public	on Private				
			Pensions	Pensions				
Greece	96	196	39	0	253			
Italy	98	184	37	0	245			
Neths	79	210	42	21	226			
Belgium	128	112	22	0	218			

Portugal	68	167	33	0	202
Luxemb'g	7	238	48	0	197
Spain	45	183	37	0	191
W.Germ.	44	179	36	5	182
Eire	102	103	21	12	172
Denmark	67	97	19	0	145
France	47	106	21	2	130
UK	40	70	14	22	74

Latest "conventional debt" [gross public debt as a % of GDP] figures show a deterioration in ALL EU countries in 1995 [source OECD]

Country	1995 conventional debt
Belgium	144.8
Italy	118.0
Greece	108.5
Eire	87.0
Netherlands	82.8
Denmark	72.1
Portugal	71.4
France	66.3
Spain	66.0
Germany	60.0
UK	56.4
Luxembourg	8.0

The % of UK GDP spent on education has been declining since 1979 [5.5%] to 1990 [5%], along with housing [3.4 to 2.1%], pensions [6.7 to 6.5%] sickness benefits [0.4 to 0.3%], family allowances [1.7 to 1.6%] and unemployment compensation [0.7 to 0.6%]. Main reasons have been the drop in corporate taxation caused by domination of the economy by TNC's, and recurring interest on national debt caused by an increasing GDP:GNP ratio.

Country	% education spend : GDP
Canada	7.2
Denmark, Finland	6.9
Holland, Norway	6.6
Germany, Ireland	6.2
Belgium	6.1
Luxembourg	6.0
France, Sweden, US	5.7
Austria	5.6
Switzerland	5.1
Spain	5.0
Japan, Portugal	4.9
UK	4.7

Source: US Dept. of Commerce, 1993, Statistical Abstracts of the USA, 13th Edition

TAX SWITCH FROM COMPANIES TO INDIVIDUALS

UK Governments have a Public Sector Borrowing Requirement that has averaged around 44% of GDP for the last 15 years, despite less support for industry. With declining corporate taxation revenues [in real terms], the leeway has had to be made up by increasing the burden on the individual, in tandem with a drop in the provision of formerly-expected services.

£m UK Govt. Receipts	1988-89	1994-95
Onshore Mainstream Corporation Tax	11716	10970
Public Corporation Tax	108	190
North Sea Companies	510	140
TOTAL	12334	11300
TOTAL INC. Advance Corporation Tax	18537	18800

	1988-89	1993-94
Personal Income Tax	43433	58442
Corporation Tax	18537	15021
% Business:Personal Tax	42.7	25.7

[Source Inland Revenue Statistics 1994]

Personal taxes [direct and indirect] for a typical two-child family on average earnings were 35% of earnings in 1994, as opposed to 32.2% in 1979. 1995 estimates are around 36%. Spending upon education as a proportion of GDP dropped from 5.4% to 5.2% in 1994, the lowest in the EU, and pensions dropped from 4.7% to 4.5%. "Renewal spending, on strengthening the economy, including education, housing, industrial regeneration and transport, had fallen as a proportion of GDP by 3%, the equivalent of £20bn, to 10.3% of GDP" [The Guardian 27/9/94].

EFFECTS ON DOMESTIC COMPANIES - LOSS OF CRITICAL MASS NEEDED TO FUND WELFARE PROVISION

Several senior advisors to the Thatcher Government of the 1980's assured it that manufacturing no longer mattered, as the UK could survive as a service economy.
They appeared to believe that some type of distinctive competence could protect UK service industries from foreign competition, not realising that services are dependent upon industry for growth. The fact that manufacturing accounts for 70%+ of exports seemed of no consequence. The international service sector is quickly globalising, with the 8 largest banks in the world being Japanese, and the recent merger between Bank of Tokyo and Mitsubishi Bank creating an organisation bigger than all the British clearing banks combined. Nomura and Daiwa are first and third largest international bond underwriters, and 3 other Japanese firms are in the top 20. [40% of jobs in the financial heart of the UK, the City of London, are in foreign-owned corporations].

Lord Weinstock, managing director of GEC, stated that UK "productivity has been increased through labour-shedding, not by raising output. Over the past 12 years, there has been a reduction in the manufacturing base, which is now too small to solve Britain's Balance of Payments problems. The deficit cannot be funded from the services sector, which is suffering from sharply declining surpluses" [Sunday Times 13/6/93]. The Department of Trade and Industry suppressed publication of its report into the state of UK manufacturing in 1993, which stated that there was "inadequate management, a shrunken manufacturing base, insufficient investment in new technology and a woeful lack of new products" [ibid]. In the same week, an IBM/London Business School report stated that only 2% of UK factories were world-class. "Significant numbers of British manufacturing plants were virtually beyond hope: 12% were under threat and would not go the distance, 21% were weaker still and were effectively makeweights, and 7% were so poor they were considered `punchbags' " [ibid]. The chairman of the CBI's National Manufacturing Council stated that "Mrs

Thatcher did a very good job of clearing away the undergrowth. The problem is she forgot to plant a few trees. Manufacturing may be only 20% of the economy, but it is 50% of consumer spending and 70%, and rising, of exports " [ibid].

The UK has around 150 of the 600 plus Japanese manufacturing enterprises in Europe, and around 60% are in transportation and electronics. The home-owned UK car industry now consists a a few niche manufacturers - the leaders being TVR and Morgan, who each make a few hundred sports cars a year. Rolls Royce is the only other domestically-owned manufacturer, but is for sale, and will probably end up as part of Mercedes or BMW.

In electronics, EMI of the UK invented the television, but manufacture has been taken over by Japanese companies, and the UK's leading computer manufacturers, Acorn and ICL are now in Japanese ownership. Clive Sinclair invented the personal computer and the digital watch, which were successfully exploited by other countries. The domestically-owned electronics industry is extremely weak and weakening with defence expenditure cutbacks. Japanese semiconductor companies in Europe "still rely heavily on Japanese rather than local suppliers for sourcing equipment and materials for technological reasons ....local supplier industries may eventually be replaced by multinational suppliers. The Community may need a policy to help local supplier industries elevate their technological capabilities " [Does Ownership Matter, ibid]

European producers of semiconductors hold less than 40% of their own market - more than 30% is provided by foreign companies in Europe, with Americans providing 24% and Japanese 7% [and expanding rapidly] - this gave a trade deficit in active components of $4.15bn in 1990. In DRAM memory products, only Siemens of Europe has any market strength, mainly as a junior partner in the IBM-Toshiba alliance, and microprocessor production is dominated by American producers.

NEC and Toshiba, the world's two largest producers of semiconductors, have been in Europe for over 12 years, and Motorola [4th biggest] for over 27 years, and all are expanding facilities in Europe, despite high costs. However, Philips, Europe's largest producer, had moved assembly work to Asia because of costs, as has Siemens, leaving behind only high-end fabrication operations that need close contact with European R&D facilities. LSI-Logic of the US closed its state-of-the-art semiconductor plant in Germany, switching to far-Eastern facilities also.
In consumer electronics, Japanese factories in Europe contribute 28% of European production. Europe is also a massive importer, and exports minimal quantities to the rest of the world, giving a trade deficit of $12.6bn. In computers, European firms only control a third of their market, with the rest imported or foreign-owned [In contrast, American and Japanese firms control 92% and 84% of their respective domestic markets [Does Ownership Matter] The European position is deteriorating across all electronics sectors.

Apart from the [declining] defence electronics market, there are no major UK companies in electronics: IBM, DEC, Compaq and ICL/Fujitsu predominate in computers; Matsushita, Sony and Hitachi in consumer electronics; INTEL, TI and NEC in semiconductors.

Nick Oliver and Barry Wilkinson [The Japanisation of British Industry 1988] concluded that long-term planning facilitated by long-term financial commitment was the crucial factor in the success of Japanese companies in the UK..." the Japanisation of British manufacturing industry will go ahead on a significant scale, but unless there is a change in the structure of finance to industry, this will be at the expense of British-owned companies, and a further decline in the quality, if not quantity, of Britain's manufacturing base "

"Jobs have been lost, imports have risen, and control of finances and research spending has often moved overseas as a result of the £60bn spent by foreigners taking over 1728 UK firms in the past 8 years ".......''two-thirds of companies taken over cut employment. The total number of employees in the 73 firms [surveyed] has shrunk by 11%, to 91,061" according to a recent and comprehensive survey [Foreign Acquisitions in the UK: Impact and Policy", J.Hamill and P.Castledine, University of

Strathclyde 1995]

THE TYPE OF EMPLOYMENT CREATED BY FDI

The problems of levelling social organisation to the same global scale as economic organisation have been discussed by the International Institute for Labour Studies in Geneva ["Creating Economic Opportunities: the role of labour standards in industrial restructuring " ed. W.Sengenberger and D.Campbell, ILO 1994]

Unfortunately, the "gaijin" attitude seldom allows foreigners power in the hierarchies of Japanese companies, so the theoretical advantage of learning superior management techniques is rarely practised.

In 25 Japanese manufacturer/assemblers in Wales, there were 200 Japanese top management, and all but 7 had Japanese managing directors......." in spite of the high costs of retaining expatriate staff in Wales, Japanese personnel still tend to hold key, if not senior, positions in the plants " [WDA-Cardiff Business School Survey 1992]

Hitachi has been in Wales since 1984, and now employs 850 people. The manufacturing director is Japanese. The 4 directors at the next level are all Japanese, in charge of marketing planning, administration, production of VCR's/CD's, and production of microwaves and copiers. Of the 6 managers at the next level, all are Japanese, except the Finance General Manager. At the final managerial level, Japanese personnel control production engineering and product planning. Obviously Hitachi needs a British financial expertise input, and this non-Japanese national is on the third level of an 11-man top management team.

Japanese Plants in Wales 1995

COMPANY	estab.	product	process	emp't	RDG	RSA	UK Tax as % of Sales
Aiwa	1979	audio video	assemb.	800	835	560	0
Brother 2 plants	1987	printers	assemb.	240	2643	1113	0.7
Cal sonic	1989	car heaters	manuf, assemb	900	n.a.	n.a.	
Diaplastics	1987	CTV covers	process assemb	200	n.a.	n.a.	
Dowty Koike	1991	plastic comps	manuf	74	0	2250	
Electron Harness	1988	TV harness	assemb	130	n.a.	n.a.	
GKK	1989	Inject Mould	I-J,sub assemb	60	n.a.	n.a.	
Good'g Sanken	1990	transformers	assemb	220	0	2000	
Hitachi	1978	CTV VCR	assemb	900	442	1310	0.9
Hoya Lens	1980	spec lenses	manuf	115	312	1040	
Lucas SEI	1990	wiring harness	assemb	1290	n.a.	n.a.	
Matsushita Magnet	1990	magnetrons for m/wave	final assemb	46	0	1176	0.2

Matsushita EC		1988 filters	transf'r	assemb	158	414	1000	0.2	
Matsushita El		1976	CTV MW assemb		manuf	1750	256	1050	0.2
Meiki	1989	Inject moulds	manuf repair	13	n.a.	n.a.			
Optec	1987	harness wire	prod	assemb	200	n.a.	n.a.		
Orion	1986	CTV VCR		assemb	350	n.a.	n.a.		
Sekisui	1978	Poly foam	process	batch	80	n.a.	n.a.		
Sharp P	1988	metal comps	ings	press	92	n.a.	n.a.	1.4	
Sharp	1984	VCR MW CD	assemb	manuf	1150	4623	6120	1.4	
Sony	1973	CTV	manuf assemb	3200	3968	18100	1.3		
Star	1988	Printer	assemb	375	1261	990	LEFT UK		
Tsuda	1988	Inject Mould		mould	175	750	0		
Yuasa	1981	Batts	manuf	640	2496	2100			

Japanese Plants in Wales 1995 (cont.)

COMPANY		estab.	product	process	emp't	RDG	RSA % of Sales	UK Tax as
Zeon	1989	Synth Rubber	batch process	85	n.a.	n.a.		
Matsushita Kyushu		1986 Comp	Electonic assemb		manu/	660	0	1400
Matsushita Kyushu		1989	PABX	assemb	180	na	na	
Komatsu		1967 Movers	Earth	dist	20			
Takiron	1972	PVC sheet		process	150			
Tomoe Valve		1986	Valves	distrib	20			
Shiman	1986	Gears	distrib	20				
Sharp Precis		1988	Parts	manuf	70			
Taiko	1988	Elec conns		assemb	70			
Zeon	1989	Chem	process	72				
Sumitomo		1989	Wire	dist	20			
Toyota	1987	Engine	assemb	300				
Dynic	1989	Printer Ribbon	manuf	45				
Roland	1990	Music Instr		distrib	12			
Meiki	1990	M/C tool		maint	70			
Sony	1990	CD case	manuf	65				
Konika	1990	Photo copier		assemb	200			
Sanyo Oil		1990	Sports club		leisure	30		
Illbruck Koiko		1991	Poly comps		process	170		
Aoki	1991	Real Estate		devt	-			
RTEK	1991	Car Trim		manuf	70			
CIMA	1991	Fruit Juice		process	140			
TAP	1994	Auto Parts		assemb	60			
Nippon Electric	1995	CRT Glass		process	750			
Kinetsu	1990	Freight F/D		distrib	3			
Others				16640	1517	1831		

TOTAL	19517	42040

Source : A Welsh Perspective in Japanese Transplant Manufacturing - M.Munday et al, Regional Studies Vol 29, No 1, updated by author
[Regional Development Grants and Regional Selective Assistance are in £000, for the period 1981-1993 only. Star Micronics has since left Wales].

16640 [mainly female assembly] jobs have been created in Wales by Japanese FDI, at the same time as over 200,000 male mining jobs have been lost [and not replaced] in the Principality.

"The jobs being created , both in the UK, and the rest of the world, by multinationals, are poorly-paid, part-time, less unionised, less secure. There are now as many women as men in the UK workforce, largely because the number of male full-time jobs is falling and that of women, particularly in service industries, is rising. The overall impact of such changes on human well-being can only be guessed at, but if insecurity translates into anxiety - worrying constantly about one's job, turning oneself into a competitive animal to survive - then the combination of foot-loose capital and fickle employment is a recipe for family and social stress " [Our World in Their Hands - D. Nicholson-Lord, Independent On Sunday 6.2.95]

Back in 1987, a study of 20 Japanese manufacturing plants in the UK showed that only 2 had any skilled [time-served/apprentice-trained] worlers on direct production [J.Morris, The Who Why What and Where of Japanese Manufacturing Investment in the UK, Industrial Relations Journal Spring 1988]...." overwhelmingly they recruited young unskilled workers, often school leavers.......in the electronics sector young females were employed.........certainly, one (British) manager reported that his recruitment orders from Japan were to employ only presentable loking female staff....nobody fat " Even now, Honda UK's average employee age is 25.

The great Japanese success story in the UK, Wales, has a GDP of £7545 per capita, compared to the UK average of £8766. The most important private sector contributor is manufacturing [£6bn of the GDP of £22bn] followed by financial and business services £4bn and distribution and hotels £3bn. Manufacturing contributed 28% of GDP, compared to the UK average of 22.3% [Lloyds Bank 1994 Profile]
In Japanese companies in Wales, graduate employment remains "fairly low" and women make up half the workforce, mainly in repetitive/low paid assembly operations. In fact, in 1995 it was reported that Korean companies operating in the UK paid less wages per hour to British women than to female employees back in their Korean factories [Richard Needham, Trade Minister, upon a visit ot the Daewoo factory in Northern Ireland]. John Monks, Trades Union Congress General Secretary, stated " The logical conclusion is that British workers will end up with wages no higher than in the worst sweatshops of the world. This is no way to run an advanced industrial economy. We need to compete through high skills, innovation and investment ".

Indicative of the changing job structures in the UK is the fact that the greatest rises in employment by occupation between 1992 and 1993 were travel attendants [+18%] and personal service workers [+17%]. In the same period, there were 27% less metal making workers employed. By industry, the leading growth sector was domestic service, up 12% in terms of jobs. The industry losers were man-made fibre-making
[-100%], coal mining [-38%], leather goods [-32%], other mineral extraction [-23%], commissioning [-14%], fishing [-14%], R&D [-11%], and electricity production and distribution [-11%].

DISPLACEMENT OF EU INDUSTRY

The first wave of Japanese FDI occurred in the USA, it is instructive that their transplant car operations are thought to have cost 40,000 jobs in the indigenous US vehicle industry in 1988-89 alone [Financial Times 28/11/95].

Honda, Nissan and Toyota are cranking up UK production to push further into the rest of Europe, but European producers want this boost in transplant production to be included in Japan's quotas for 1995. " The more local production, the less need for exports " says one European Union official [Business Week, 3/4/95]. The Japanese refute this and want to raise exports to over 1m vehicles but the EU wishes to hold them to the 1994 level of 993000......."industry experts expect Japanese cars, mostly made in Britain, to grab 15% of the European market by 2000, up from 10.3% last year ". The head of Peugeot expects a pentration of 25%.

Yamazaki, aided by £5.2m in government grants, " sees itself as a European business serving mainly European markets " [Financial Times 13/10/95]. It was set up on a greenfield site eight years ago with the latest FMS technology and is now the UK's leading machine tool maker. UK companies could receive no assistance at the time from their government, and at least five domestic companies have since gone out of business, leaving the UK as a shell with its remaining producers mainly making Japanese machine tools under licence.

Yamazaki had set up sales subsidiaries in Belgium in the early 1980's, and in Germany in 1982 to to provide sales and service to West and East Germany, Austria and Switzerland. The size of the German subsidiaries were doubled in 1987 to allow German equipment to be bolted on to basic Yamazaki machines. Its UK sales office was expanded into a state-of-the-art CIM factory that began production in 1987. All European governments wanted the plant, and German machine tool-makers had to lobby hard against its placement in that country, which was Yamzaki's favoured location. The UK aid package brought strong opposition from Continental and UK producers, who had been fighting dumping by Japanese producers since the early 1970's. [The author was a management consultant in production engineering at this time, analysing new model profiles for Wadkin, a UK manufacturer spread over 3 old factory sites with over a dozen unions. The company was struggling because of the costs of the investment programme needed to keep up with CNC machine tool manufacture. There was no government assistance available to update plant or buildings]. The full capacity output was 1200 NC lathes and machining centres p.a., equal to half of all UK output. About 85% is exported, mainly to Europe, and the factory was designed to be profitable even running at half capacity.

CECIMO, the European machine and tool manufacturers' association, claimed in July 1989 that local content at the plant was only 50%. Later that year, Yamazaki announced plans to set up component factories in France and Singapore to supply the plant.

Yamazaki only employs 240 people, but its knock-on effects in the industry were immense, and not monitored by the UK government. "Most UK production of machining centres is [now] under licence from Japanese makers [Transnational Corporations and Policy Dilemmas, S.Young and N.Hood, Transnational Corporations, December 1992].......as the industry has become more advanced technologically, it has become more dependent on foreign-owned firms.
Bridgeport, which has the largest turnover of any UK-located maker of machining centres, has its horizontal machines designed by Yoruda, while TI assembles Takisawa vertical machining centres.

Walker [National Innovations Systems:Britain, in National Innovation Systems, ed. R.R.Nelson, OUP, 1993] goes even further and states that Britain's entire economic development in the 1990's depends on the behaviour of foreign, and particularly Japanese, multinationals.

Photocopier manufacturers in the EU suggested that each job in a Japanese company assembling photocopiers in Europe [- they all import the highest value-added items, the drum and lens -] comes at the expense of 4.5 jobs in a European firm as the higher value-added, and better-paid, jobs remain in Japan. All three Japanese manufacturers in the UK expect to double their production levels and exports to the EU during the 1990's. Komatsu plans to export 80% of its UK production to the EU. Komatsu's plant is designed to assemble 2400 excavators and wheel loaders in an EU market of 15100 units a year and increased production in an industry already suffering from overcapacity. Its assembly plant avoided 26.4% EEC anti-dumping duties on imported excavators. Caterpillar's Scottish factory has since closed with massive job losses. Europe in 1986 had 3.5m units or 24% excess capacity when Nissan's new plant came on stream, since followed by Honda and Toyota in the UK. In France, most of the production of the Sony cassette plant and the Clarion car radio shed go into the rest of the EU. This obviously has massive effects upon other European manufacturers' market shares and employment levels.

Even in acquired companies employment has decreased. In three consumer electronics plants acquired by the Japanese in the UK, employment dropped from 4300 to 1600, and the UK car component industry lost 126,000 jobs between 1979 and 1987 largely as a result of Japanese competition [The Financial Times 30/6/1987] It
appears that every Japanese automotive investment - cars/trucks/loaders /excavators/components - in the EU has added to existing excess capacity.

The employment research company, Industrial Relations Services, carried out a survey of Japanese employment practice in the UK in 1990 - all firms had adopted flexible working practices, and the report noted " It may well be the case that Japanese firms operating in Britain, which have been able to secure a high degree of employee flexibility from "start-up", have gained a competitive advantage over other, more established firms which are still trying to negotiate more limited changes to working practices "

There is no direction in Europe upon car manufacture. Mercedes-Benz cut 27,500 jobs in 3 years from its workforce of 225,000, and VW slashed 32,500 jobs [and production of 300,000 cars] in 2 years. At the same time, Nissan, whose original public intention was to build a 100,000 car capacity site in England [although it bought 3 times the required amount of land], turned out 270,000 cars in 1993. Of the other English transplants, Toyota is making around 200,000 cars and Honda 100,000. Honda has plans to treble capacity, and Toyota has recently announced expansion plans. By 2000, Japanese car manufacture in the UK will surpass 1m cars, mainly for export to the saturated European market.

Daewoo [Korea] will also begin manufacture in the UK, planning to build 100,000 cars a year, with production starting in the EU "liberalisation" year of 1999. Daewoo's domestic rivals, Hyundai and Kia [a strategic partner of Mazda], are also planning expansion in Europe, and Michael Heseltine, the Minister for Trade and Industry, is believed to have made it clear that they will be welcome in Britain. [With Samsung, a strategic partner of Nissan, and Ssongyang, the Korean car industry is gearing up to quadruple its global production to 2m cars by 2000]. Many Korean companies, like the Japanese before them, have been induced to set up in Europe as much by sticks as carrots. The keenest spur has been a succession of anti-dumping cases brought by European manufacturers which claim they are being injured by Korean exports sold at artificially low prices. So sensitive have Korean manufacturers become to such complaints that they have sometimes chosen to sidestep them by setting up plants in Europe even before Brussels has opened formal anti-dumping proceedings.

EUROPE CAR MARKET	1990	%	2000	%
JAPANESE TOTAL	12.6	19.5		
of which: imported	12.0	10.5		
made in Europe	0.6	9.0		
EUROPEAN	64.6	55.0		
AMERICAN	22.8	25.5		

[Source Euromonitor and Industry Estimates]

BMW's chairman observed, concering Japanese car manufacturers, that the principles of free trade are no longer equally observed worldwide " Though their aggressive policy of conquering markets, the Japanese have created a scenario of ruinous competition everywhere. The first people to suffer from this were the US manufacturers " The next, he implies, will be the Europeans [Fortune, May 4, 1992] The 6 biggest Japanese manufacturers are planning to build more than 1.5m cars between them by 2000. GM is expanding also, with a new plant in East Germany to build small family cars to compete with the Japanese across all of Europe. Even without including the Korean transplants, overcapacity in

Europe will exceed 21% by 2000, despite the opening of new markets in the East. Domestic European manufacturers will have to rationalise, merge/be acquired or go out of business.

"A recent complaint by European excavator manufacturers triggered such moves by Samsung [in the UK] and Hyundai [in Belgium] " [Financial Times 10/2/95] However, the scale of the investment at $16m and $10-15m respectively seems to indicate yet another assembly-shed approach to manufacturing in the EU. " The speed of their response has prompted some other industries to think twice about launching anti-dumping actions. ACEA, the European motor manufacturers' association, says a report by an independent consultant in 1994 found clear evidence that Korean cars were being dumped in Europe. However, its executive secretary fears an anti-dumping complaint could prove a `two-edged sword' by prompting Korean carmakers to set up assembly operations in Europe. That would cause a new headache for the European industry, which is still struggling to adjust to new capacity created by local Japanese `transplants' " [Financial Times, ibid]. With increased Japanese and new Korean production, the UK government believes it will achieve a positive trade balance in motor vehicles by the year 2000. The cost to other EU countries has not been assessed.

The earliest UK Japanese transplant, Nissan, still imports all its high value added components like engines and driver-trains from Japan. "The UK sites are achieving productivity that matches even the best in Japan but they are doing it from greenfield sites with hand-picked, young, enthusiastic and largely non-unionised workforces " [EuroBusiness June 1993]. While it takes European manufacturers on their brown-field sites, with heavy union representation and high R&D costs, 30 hours to produce an average family sedan, it takes 12.5 hours in the equivalent Japanese transplant. The Japanese now control 30% of the US market, and Europe may head the same way, when the transplants are allowed "unrestricted access" in 1999 [despite having a "closed" home market].

" Every one of Europe's car-makers will suffer as the Japanese develop their sales. The Japanese will increase their share as restrictions are relaxed - gradually in the 90's, and then dramatically after the year 2000. In Italy, Fiat will lose again; in France, Renault and Peugeot will be under pressure; in the UK, there will be added problems for Ford; and in Spain and Portugal, Renault has the most market share to lose. Competition will be intense and margins will be under pressure. Serious losses are the likely outcome and an inadequate cash flow is certain, demanding ultimately the most radical restructuring of the industry "
[EuroBusiness June 1993]

TECHNOLOGY TRANSFER ?

The vast majority of Japanese investment in the UK has been in its "soft" sectors of car and electronics manufacture. The UK has no domestic car or consumer electronics producers remaining [unless we count Amstrad, which subcontracts manufacture all over the globe]. There is minimal R&D at any electronics plants in the UK, and they tend to buy bulky materials locally and import higher technology goods from Japan and the Far East ["The Who, Why and Where of Japanese Manufacturing Investment in the UK", Jonathan Morris, Industrial Relations
Journal]. An example of global production that benefits from a strong yen is that of projection TV's by Hitachi. Semiconductors and lenses leave Japan, making up 30% of the parts, and are yen-denominated. Small tubes that project information on the screen come from Hitachi South Carolina and are denominated in dollars. The chassis and circuit boards come from Hitachi Malaysia and are also dollar-denominated. Assembly is carried out by Hitachi in Tijuana, Mexico. Peso-denominated costs such as labour have dropped in both yen and dollar terms. What benefit is there for Mexico ?

Increasing global competition has been fuelled by the Free Tradeism adopted by Western governments for doctrinal purposes, fuelled by the new mobility of capital and technology, and the fact that more workers from developing countries are educated and capable of operating complex machinery. The emergence of a pool of extremely cheap, educated labour in the third world with access to first-world techology has to depress wages and conditions of European workers. IF Western governments are proposing that Europe will receive technology transfer from inward FDI, they must also accept their workers must compete upon terms that are applied in competitive nations with appalling work conditions such as Indonesia and China.

Effective transfer of technology should benefit productivity levels in an industry, and productivity is best measured by value-added, not by misleading measures such as sales per employee or cars per employee. In the UK, Japanese transplant manufacturing operations have been shown to be much less productive than those of other countries. Their value-added to sales ratio is around half that of UK firms, and dropping. Low productivity is associated with low wages per head, which has been confirmed for Japanese operations in the UK [Factories or Warehouses: Japanese Manufacturing Foreign Direct Investment in Britain and the United States, K.Williams et al, University of East London Occasional Paper No. 6, 1993].......

"The Japanese transplant manufacturer in the UK is characterised by no profits, low productivity, high stocks and low wages. From this point of view it is hard to distinguish it from the rest of British manufacturing; it is simply the part of British manufacturing that bears the label `under new management'.......close scrutiny also reveals that the most imprtant difference is the heavy reliance of Japanese-owned manufacturing transplants upon imported components.......what the Japanese transplants bring is not a new standard of operating efficiency but more tied imports "

The ratio of half-value-added compared to British firms, if accounted for entirely by imported goods, means that Japanese transplants will create half the employment of an equivalent UK manufacturer, i.e. displacing employment. The other explanation is the effects of transfer pricing on the high side for imports. The truth lies somewhere between, but a case cannot be made for encouraging Japanese transplants to the UK in the EU context. It is dubious whether the UK has any benefits, whereas European competitors of the transplants are faced with grant-assisted greenfield assembly plants with the financial structures to allow aggressive market share growth policies.

Disillusion has been expressed by Prime Minister Mahatir Mohamed of Malysia, who has complained that Japanese companies are not transferring technology to manufacturing plants [Eurobusiness May 1 1995]. The high-value-added parts of Malaysia's car, the Proton, are made in Japan by Mitsubishi. It is impossible to sell the Proton in Japan, and Malasia has stated that its next generation Proton will be based on the Citroen AX. Malaysia is also angry about the refusal of Japanese companies to hire local managers. Both Matsushita and Intel have been in Malaysia for 22 years. Matushita does not have one Malaysian in a top position, while all of Intel's operation is completely run by Malaysians.

VALUE-ADDED IN MANUFACTURING AS A % OF GDP [OECD sources]

	1960	1990	% CHANGE
Germany	40.3	30.8	-25
Japan	33.9	28.9	-15
UK	32.1	19.9	-38
Italy	28.6	22.2	-22
USA	28.3	19.6	-31

All major economies have seen the relative importance of manufacturing decline in the last 30 years, but NO country has experienced the cutback of the British experience, due partly to the replacement of British goods by imported goods, and by low value-added goods of foreign TNC's operating in the UK. British manufacturing has come increasingly to depend upon the activities of foreign multinational companies. The deficit in the UK upon manufactured goods has been running at over £1bn per month in the last few years, since 1989's deficit of £17.9m, and the impossibility of the service sector replacing the surplus that manufacturing used to generate is shown below:

UK Current Account Surpluses and Deficits as a % of GDP

	1963	1973	1985	1988	1991
Manufact'd Goods	6.95	2.26	-1.22	-3.81	-0.72
Interest, Profit + Divs	1.46	2.02	0.83	1.10	0.10

Services -0.15	1.04	2.17	1.10	0.96	
Other Invis.	-0.45	-0.67	-1.01	-0.88	-0.27
Fuels -1.25	-1.44	2.11	0.38	-0.01	
Food Drink Tobacco	-4.89	-2.97	-1.21	-1.13	-0.80
Other Vis.	-2.10	-1.75	-0.77	-0.79	-0.54
TOTALS	-0.43	-1.51	0.90	-4.03	-1.28

Without the maximum North Sea Oil windfall profits of the mid-1980's, there would also have been a deficit in 1985. We can see a continuing depletion of national assets as the Government borrows money to pay off Balance of Payment deficits instead of being able to invest in a modern national infrastructure. Without a strong domestic manufacturing base, it is impossible to run a surplus upon the Balance of Payments, and consequently the value of the nation's currency [like the dollar] constantly drops, making the remaining UK companies easier to acquire by outside companies.

In areas like car production, some advantages of Japanese production methods are not proven. BMW's takeover of Rover is modernizing the batch production system implemented by Honda into an individualised system. It appears that much Japanese production merely involves "rather simple methods of work
intensification " [Britain's Economic Performance, ed. T.Buxton, P.Chapman and P.Temple, Routledge 1994] ......"In particular, the famous Japanese method of subcontracting is seen as a means by which large firms exploit smaller firms which have lower profit rates and lower wages " { Against Lean Production, K.Williams et al, Economy and Society August 1992]. At least one suitable UK subcontractor refused to supply Sony's TV plant at Bridgend, Wales, because it would not and could not take on a fixed-price contract. The subcontractor also acts as a buffer allowing the larger firm to maintain more stable employment.

It is naive to believe that the Japanese will transfer a substantial amount of production technology, one of the cores of their competitive advantage, to the Western assembly plants, or develop substantial local R&D capabilities. Japanese companies hold over 50% of the European CTV market and over 95% of the VCR market, and have had local assembly plants in Europe since the 1970's but they employed less than 50 people in development and none in research in 1988 [Financial Times 28/1/1988]

Andersen Consulting's Worldwide Competitiveness Survey 1995, demonstrates the effectiveness of Japanese, French and US TNC total control of the UK automotive market in transferring technology: "UK automotive component manufacturers lag behind the rest of Europe in productivity and quality........UK quality is among the worst in Europe. UK quality is the second lowest of all countries covered by the study. Despite some of the lowest labour costs in Europe, the UK's low productivity results in labour costs per unit which are second only to Germany. Low production volumes coupled with the presence of many different car manufacturers create a fragmented industry. Despite the adoption of many Japanese techniques and practices, the gap between the UK and Japan is widening "

Robert Reich has argued consistently [like the UK's Michael Heseltine] that the nationality of a global company's ownership no longer mattered. Like manufacturing, he believed that R&D and development were being sited with almost complete disregard to a company's nationality. John Cantwell has tried to analyse the facts, and " His study challenges the Reichian myth in several senses. First, it shows that US multinationals still conduct the vast majority of their technological activity at home, not abroad; during the 70's, less than 7% of their patents arose from work done abroad and in the 80's the proportion was less than 9% "[Financial Times 15/7/94]

"It is still the exception rather than the rule for higher value-adding activities, especially design, development and engineering, to be equally dispersed across frontiers.....with a few exceptions, most Japanese R&D laboratories in the US and Europe are off-line labs serving the home base - where the real added value is done......not is senior managerial decision-making as dispersed as the location of a company's physical facilities might suggest.....the net result is that .....the home country still benefits from an overwhelming `headquarters effect': an unusually high concentration of technical skills and senior decision-takers. This is true even of a long-standing `good international corporate citizen' such as IBM" [Nationality Should StillCount, C.Lorenz, Financial Times 11/2/94]

BUILDING UP AN INFRASTRUCTURE ? REGENERATION ?

The 1980's saw the appearance of Japanese component manufacturers in the motor and electronics industries in a "second wave " of investment, caused by local content rulings and the preference for local sources of supply. Final goods manufacturers such as Sony, Matsushita and Nissan set up in-house EC production of components, and automotive parts manufacturers like Calsonic and Ikeda Bussan, and electronics suppliers like Alps and Tabuchi, also set up.

The net job creation due to FDI is certainly less than that which can be created by more direct forms of government expenditure, but EU rules do not allow any level of assistance of home-based industries, while seemingly turning a blind eye to non-EU companies being set up and actively aided to compete with local companies and those in neighbouring EU countries.

OKI, the Japanese dot matrix printer manufacturer, is making about 100,000 printers a year in Scotland for the US and European markets, and recently invested £10m following a decision to supply electronic components for Honda in Swindon, England. This is part of an ongoing process of Japanese assembler/manufacturers using Japanese suppliers. A Japanese-German joint venture has been set up in Wales, R-Tek, to supply automotive components to Honda. 60 jobs are also being created by TAP Manufacturing, a Japanese subsidiary of Musahi Seimitsu in Wales to supply components to Honda.

A report by Cardiff Business School stated that " the ability of Japanese companies to buy locally in Wales is limited by problems of non-availability and quality ", leading to Diaplastics, a Japanese plastics manufacturer being set up next to Sony as its prime supplier. Nippon-Schottwerke, a Japanese-German joint venture, is creating 750 jobs in Wales to supply glass components to the Sony and Panasonic
[Matsushita] factories in Wales.

Panasonic, part of Matsushita, has been manufacturing CTVs at the rate of 500,000 pa in Cardiff, Wales for 20 years. For all that time it has imported fastenings from Japan. Its main UK-sourced article is packaging, as it also brings in video cabinets from Germany and plastics from Sweden. As late as 1994 it sourced all its circuit boards from Japan [using 22,000 a day at peak asembly times]. It buys its flyback transformers from Japan or from a Matsushita subsidiary in Scotland, and their purchasing manager has stated that he would "never" buy electrolytic capacitors from Europe because of quality concerns.

" Opponents of Japanese manufacturers in Europe claim that their factories are just screwdriver plants assembling components made in Japan. If so the effect would be to transfer wealth out of Europe ......the largest survey of Japanese manufacturers in Europe, carried out by the Japan External Trade Organisation, suggests that the screwdriver mentality dies hard. The average local content for the EC [including such items as labour and advertising space which have to be bought locally] was 64.9%. Most manufacturers told JETRO that their local content was either staying the same or being reduced. The reason given was the poor performance on the part of European suppliers. 71% of Japanese manufacturers say they are not satisfied with their local subcontractors. The upshot is that local content figures are unlikely ever to match those of European manufacturers being replaced by Japanese competitors ". [International Management May 1992]

A superb study by Ivan Turok gives the lie to the infrastructural benefits of high-tech FDI [Inward Investment and Local Linkages: How Deeply Embedded is Silicon Glen ?, Regional Studies Vol 27, No 5] He points out that the spin-offs to a local economy by backwards linkages to indigenous suppliers of materials, services and machinery have been traditionally one of the main ways by which benefits from inward investment filter through to a region. He notes that Hood suggested that the main

attractions of Scotland to foreign companies include " the educational infrastructure, the supplier base [particularly for electronics], the track record of existing overseas companies and the work of Locate in Scotland in customer care "
[N.Hood, Inward Investment and the Scottish Economy, Royal Bank of Scotland Review 169].

Turok then goes on to study the electronics supplier base. Electronics gross output in Scotland increased four-fold in the 1980's, at 14% pa, while the rest of Scottish manufacturing stagnated......by 1990 electronics accounted for 20% of gross manufacturing output and 42% of manufactured exports. However, the direct benefits for the local economy are far less apparent in the relatively slow rise in employment and value added. Gross output increased at a compound rate of 16% pa between 1983 and 1989 compared with 7.1% for value added and 1.8% for employment.

Value added is a guide to the amount of work done by firms in Scotland to develop and manufacture the products sold, and hence of the income generated locally, and its share was only 24.2% in 1989 in electronics, compared to 34% in the rest of manufacturing. . It had fallen steadily from a high of 39.2% in 1983. The value added of UK-owned electronics companies dropped from 46% to 40% in the period, while foreign-owned companies dropped faster from a lower starting point, from 35% to 20%. This widening gap indicated the rapid growth in products shipped from Scotland, but the slower growth in actual production carried out in Scotland - there is less value added as sales increase, with more materials, services and components bought in: exisiting companies were vertically disintegrating, and buying in more ready-made components and doing less in-house manufacturing; new inward investment plants shifted towards simple final assembly and test operations.

In 1989, it was estimated that 50,000 jobs could be created if Scottish firms could capture the market for input purchases, but there has been a consistent picture between 1986 and 1991, with only 12% of products sourced within Scotland [often from foreign firms]. Few inputs are sourced in Scotland, partly because of the demanding nature of requirements from companies such as Hewlett-Packard, Compaq, IBM and Sun Microsystems.

Motorola has two plants in Scotland with 3000 employees, but has a shrinking supplier base of world-class vendors with very few indigenous links. Mitsubishi has two Scottish assembly plants, one for VCR's with 1300 people, and one for TV's with 800 people. Material inputs represent 75% of the cost of production, and most are sourced from Japan, with only 11% from Scotland. Foreign suppliers in the rest of the UK supply around 17% of inputs. Mitsubishi has just opened a new plant in Scotland, employing 200 people to make air-conditioners for the European market.
[Mitsubishi has announced in August 1994 that it will swap production of low-price VTR's from Japan to England and Malaysia - the English plant will supply Europe and the Malaysian plant will supply Japan - this gives the UK its rightful place in the pecking order of high-tech assembly]. OKI and JVC have similar purchase structures to Mitsubishi.

The Scottish electronics industry has been warned that the number of people it employs, currently 4500, could fall to only 27000 by 1997, in a report by the US Consultants, Monitor [reported in The Financial Times 7/12/93], which called the industry structurally weak, poorly integrated and "misaligned". Scottish electronics has been heralded as a great triumph of FDI, bringing high-tech jobs to areas of low employment. It accounts for 40% of Scotland's exports, and 35% of all PC's and workstations made in Europe come from Scotland. IBM's PC plant is at Greenock, and other multinationals include NEC, OKI, Sun Microsystems, Hewlett-Packard, NCR, Compaq, Motorola [2 plants] and Digital [2 plants]. Most plants are purely manufacturing operations, making products designed and marketed elsewhere.

"Indigenous companies play a tiny role in the industry "....."only 12% of components used by the industry in Scotland are sourced there, while Scottish-based companies only account for 11.5% of Scotland's £5bn pa output of electronics products " The industry is misaligned because of its 70% dependence on production, at a time when the global trend is towards software production rather than manufacturing production, while miniaturisation and greater on-chip integration threatens traditional assembly methods...."the manufacturing base will face increased competition as companies trim capacity and look to lower-cost countries as a source of supply. Indigenous companies are far too few and weak to fill the gaps left by any departing multinationals......Growth in Scotland's electronics industry has already tailed off. After compound growth in the 80's of 16%pa, output has been flat since 1989 and the numbers employed have fallen by 1%".

" Companies have tried in a number of ways to circumvent poor local suppliers. One way has been to set up component factories in Europe under the parent organisation, as Matsushita has done in Germany. A second more popular way, however, has been to encourage Japanese component suppliers to produce in the UK. The sub-contractor has every incentive; with production moving offshore and the rising value of the yen it becomes an imperative to follow. Thus, in the UK, component suppliers such as Tabuchi, Alps Electric and Diaplastics in the electronics industry and TI Nihon and Ikeda Hoover in the car industry have already located in the UK [Jonathan Morris, ibid]

Nissan claimed in its first year of production in Sunderland " a faster enrolment of local components suppliers " than had been expected, rising from 27-58, but only 2 of these were local to the Sunderland region, and only 6 came from the whole of the North of England. Nissan's first 27 "British" manufacturers supplying parts for the first Bluebird cars "all had some Japanese involvement "[Financial Times 1/10/1986]. The problem here is that "local sourcing" in the car industry context can mean using a London advertising agency, a Japanese packaging supplier based in Wales, the cost of sales, factory maintenance costs, etc., etc. Almost 50% "local content" could therefore be claimed for Nissan cars assembled in Sunderland entirely from imported parts from Japan [Guardian 1/2/84]

When Nissan set up in the North -East of England, it bought 300 acres of land at agricultural prices, AND was given an option to buy another 436 acres at the same price in 1987. The core 300 acre site was massive, and the extended site was INTENDED to be used for its own component suppliers, to which it could then charge full industrial prices for the land, representing a potential windfall profit of around £8m [equivalent to an "unseen subsidy from the local Sunderland council which sold it the land]. A joint venture with Yamato, 80% owned by Nissan has since set up to make small body pressings, rather than source locally, and Ikeda-Hoover has been attracted to the site to make electronic components for Nissan. Nissan now has "unfettered control over its immediate physical and industrial environment". [Invitation to Sunderland: Corporate Power and the Local Economy, S.Crowther and P.Garrahan, Industrial Relations Journal Spring 1988]

Manufacturing productivity gains in the UK since Mrs. Thatcher's election in 1979 were caused by demanning rather than technological progress. Between 1969 and 1991 Britain's manufacturing output [the numerator] went up by only 10% in real terms. Over the same period, the number of people employed in manufacturing
[the denominator] nearly halved. " The result was that during the early and mid-80's, ` The Thatcher Years ', British manufacturing productivity rose faster than anywhere except Japan. Though Britain's financial press and Conservative ministers trumpeted this as a `success', it was, of course, bittersweet. While new legislation curbed the power of the trade unions, and the liberalisation of statutory impediments to workforce restriction enabled management to excise inefficient and outmoded work practices, British companies showed scant ability to create new markets at home and abroad. In effect, British companies surrendered global market share. One almost expected to pick up the Financial Times and find that Britain had finally matched Japan's manufacturing productivity - and that the last remaining person at work in British manufacturing was the most productive son of a gun on the planet.....The social costs of such denominator-driven job losses are high.

Although an individual company may be able to avoid some of those costs, society cannot. In Britain, the service sector could not absorb all the displaced manufacturing workers and underwent its own vicious downsizing in the recession that began in 1989. Downsizing also causes employee morale to plummet. What employees hear is ` employees are our most important asset '. What they see is that people are the most expendable asset " [Competing for the Future, G.Hamel and C.K. Prahalad, Harvard Business Review July-August 1994]

Productivity gains were thus not reflected in an increase in output or in global market share. The UK's share of world manufactured exports fell another 2% in the 1980's and is still falling, at the same time as there is increased foreign penetration of the domestic market. On the import generation side, the performance has been appalling - the ratio of imports to total manufacturing output rose by 31.2% between 1979 and 1988, reflecting a rise in manufactured imports of 98.7% [Britain's Economic Miracle: Myth or Reality ?, ed. N.M. Healey, Routledge 1993. In a group of 20 OECD countries, Britain was 18th in terms of % growth in manufacturing output in this period - only France and Greece performed worse.

The evidence to date suggests that Japanese assembly plants in both the UK and the EC are using high value-added components shipped from Japan and generally have low "real" local content levels. If there is local sourcing, it is often from local Japanese component makers or importers, and constructed into sub-assemblies to meet local content requirements [EEC 1022/88 1988, quoted in Trojan Horse, BG James, Merciry 1989]......."The market reluctance of many Japanese companies to source locally - one company in a UK study even purchased its screwdrivers from Japan - raises strong concerns whether Japanese manufacturers will help to upgrade significantly the infrastructure in the West. .....without the transfer of the technology and skills in manufacturing high value-added components to Western suppliers there is little likelihood that the infrastructure in the West will benefit materially from Japanese plants ".

Dunning found that 42 Japanese companies in his sample bought around 42% of their purchases from UK suppliers in 1982, and that 90% of recurrent imports came from Japan, 84% of which came from the parent company or related affiliates. Local suppliers complain that potential and actual Japanese customers set unreasonably high standards, or had provided insufficient specifications and information. Products were also designed to Japanese specifications, and UK suppliers could not make economies of scale on the small production runs required. They have to also submit components and drawings to Japan for approval, which further adds to costs. The author has experience of Hitachi requiring detailed blueprints and patent knowledge of sub-assemblies before it would enter negotiations to purchase.

Local content is difficult to define. Of the 854,879 Hondas sold in the USA in 1990, nearly two-thirds were built in America, with, according to Honda, a "domestic content" of 75%, i.e. three quarters of the price is made up of US labour, components and other costs. However, studies by US government researchers suggested that Honda, Nissan and Toyota cars made in the USA were "mostly collections of Japanese parts handled by Americans but designed, engineered and fabricated in Japan. The efforts of Japanese auto companies to use American-owned suppliers are a sham" according to J.M. Farren, a Commerce Dept. Under Secretary [International Business Week Nov 18, 1991]. Because of this, France insists [as it does on UK production of Japanese cars] that they are Japanese, not American cars, and therefore subject to quotas. The US Trade Representative, Carla Hills, was drawn into the dispute, insisting that " the nameplate doesn't matter, this is still an American car ", and Secretary of State Baker cabled Brussels to add his support. US Representative S.M. Levin called this an "example of incoherent trade policy - calling something American that is primarily Japanese ". Data from a University of Michigan Study showed the make-up of a US-built 1989 Honda Civic to be:

38% Parts Imported by Honda
26% US-based Japanese Suppliers
16% US Suppliers
20% Labour, Depreciation, Overhead

Honda stated that its Civics had a 75% local content, against the 36% shown in the study. Customs auditors showed that the engine had only $51.75 of US parts, compared to over $700 worth of parts from suppliers in Japan or transplant parts makers, wholly or partially owned by Honda. By Honda's own accounting, the biggest item of local content added at the Anna engine plant was depreciation of the factory's equipment, and most of that had come from Japan. The Japanese produce over a quarter of all cars produced in the USA, and the motor trade deficit in cars and imported components accounts for 60% of the total US trade deficit.

The attitude of Japanese manufacturers to their component suppliers is shown in the fact that Toshiba has asked 4 of its domestic telecommunications equipment component suppliers to decamp from Japan to its plant in Huanzhou, a port in Eastern China.

ABILITY FOR SOCIAL DUMPING

Social Dumping is the term used to reflect the probability that unemployment will occur in those regions whose higher social standards are reflected in higher than average labour costs. This is one of the reasons why the UK government has abandoned the "minumum wage" and refuses to accept the EU's "Social Chapter", because of the greater pressure by TNC's upon direct and indirect labour costs, including safety at work provisions and flexibility of the workforce. The decision ot to sign the Social Charter has left Britain's workers with the lowest legal rights in Europe regarding employment. The relocation of work towards areas of low wage costs is the market readjustment mechanism for the diffusion of growth benefits throughout the EU, according to governments and regions upon its periphery.

"The UK currently holds Europe's social dumping title, with the bitter dispute at the American-owned Timex plant in Dundee contributing to the perception that British labour regulations are uniquely biased against workers. Even so, the Government is determined not to accept the Social Chapter on the grounds that it would diminish the competitiveness of British employers. For this, it is condemned by the British unions as well as other EC governments [EuroBusiness June 1993]

"The British goverment last night predicted that multinationals in Europe might move their operations to the UK to save costs, after Britain won a six-year opt-out from legislation to protect people at work........Mr. David Hunt, UK employment minister, claimed victory on all fronts. In spite of Britain's isolation, he said ` We are turning the tide in Europe '......he predicted that ` there may well be more companies that decide to concentrate more of their activities in the UK', a provocative remark in view of controversy that the UK is gaining unfair advantage in investment by staying outside EC social and employment regulations ". [Financial Times 13/10/1993]

The best-documented example of social dumping within the EU was the decision by Hoover, owned by Maytag of the USA, to transfer vacuum cleaner production from Dijon France to Cambuslang Scotland in January 1993. This left 600 French workers unemployed and created 400 new jobs to add to the 975-strong workforce in Scotland, despite Dijon's record as a higher-efficiency plant. With borders disappearing within the EU, there is no longer any pressure upon TNCs to keep national plants, and Hoover were looking to eliminate duplicated overheads, reduce labour costs, and realise economies of scale leading to cost savings of 25%. Actual wage costs between plants were similar, but non-wage costs such as overtime, pensions, holidays, redundancy payments and sickness benefits accounted for 40% of the payroll bill in France, compared to 15% in the UK.
Playing one plant aganist the other ["whip-sawing"] resulted in lower wages for Scottish workers plus the following concessions in order to save and create jobs:

- new limited period contracts for all new workers
- constraints upon the rights to strike
- a freeze on regular pay until the end of the year
- cuts in overtime pay rates
- flexible working time and practices
- introduction of video cameras on the factory floor

The UK Government, via The Scottish Office and various local government bodies, gave Hoover a £5m sweetener to assist the move, and Scottish workers agreed to their pension fund surplus of £17m also being used by Hoover.

Prime Minister Pierre Beregovy of France stated about this case "....you can see where unfettered liberalsm gets you. The Scottish workers, a pistol loaded with job cuts at their heads, have agreed to give up employment rights, the right to strike, and accepted a blow to their pension funds and wage costs " [Financial Times 5/2/1993]

M.Beregovy also warned John Major in the same month that Britain's economic problems could not be overcome by luring FDI away from its EU partners " you cannot dress John by undressing Pierre ". The British PM retaliated by saying " they can have the Social Chapter, we'll have the jobs "

It is far easier for non-domestic multinationals to close down plants than national companies, in their search for economies of scale as the European market becomes less fragmented. CPC of the USA switched production of Knorr soups and stock cubes from Scotland to France and Italy. Black and Decker relocated its consumer power tools plant from Limburg in Germany to plants in Britain and Italy. Toshiba's London office has been looking at ways of consolidating its 87 companies in 11 European countries [The Globalisation of Production and Technology, J.Howells and M.Wood, Belhaven 1993]. Bowater of the UK shifted production from France and Italy to the UK to take advantage of cheaper labour rates. Unilever rationalised its European toilet soap manufacture in the run-up to 1992 from 13 factories down to 4 between 1973 and 1989. The merger of SmithKline and Beecham in 1989 reduced the number of factories from over 50 to under 20, with more closures to follow in the search for scale economies and the integration of formerly separate national markets.

The 1994 Glaxo takeover of Wellcome only makes economic sense if between 12,000 and 15,000 employees are sacked and factories closed [Nice Little Earners, T.D.Breverton, Eurobusiness April 1995]. Kimberley Clark of the USA closed its Kleenex factory in France and transferred production to Germany, the Netherlands and Britain. The Swiss Nestle closed a 550-employee factory in Glasgow and transferred production to a new plant in Dijon and an existing one in Newcastle, England. Hasbro of the USA closed a toy plant in The Netherlands, despite admitting that it was " a modern, efficient and profitable plant " [Financial Times 6/4/95] to relocate production to lower cost plants in Spain and Eire. Gillette of the USA is "realigning" its production by making 2000 developed world employees redundant and shifting production to China, Poland and Russia. The closure of its Seville, Spain, plant according to its manager was " not that it is unprofitable, but that it is superfluous ". Gillette decided to concentrate its European modernisation programme upon the remaining plants in England and Germany "because of government support", as it received no subsidy in Spain [Financial Times 8/6/94]

Jaques Delors stated that " It is not in the spirit of the Treaty of Rome to destroy jobs in one country to create them in another ", but there is "considerable evidence"
[Dunning ibid] that US companies are engaging in regional division of labour in the EC. " In 1985, 56.1% of sales of US subsidiaries in the EC were sold to other US affiliates, compared to 25% in 1966. Between 1985 and 1988, these sales rose by 74.7% compared with local sales of 37.4%.

"Locating in low-cost areas; using greenfield sites; supported by grants, soft loans, subsidies, accelerated depreciation and other perks; using the latest technology; and employing non-unionized young, unskilled and semi-skilled people to assemble components have all given Japanese firms lower start-up and operating costs. In Sanyo's UK plant half the employees are unskilled women and the average age of the workforce has been brought down to 20 years.....By locating in areas with high unemployment and with no history of a specific industry, potential employees are more likely to accept lower wages and fringe benfits. For example, the plants of Honda [Ohio], Nissan [Tennessee and North-East England] and Sony [South Wales] and Dax [France] were all located in areas of high unemployment with no history of assembling cars or electronics".....like Silicon Glen, so much for the claims that a skilled and trained workforce attracts high quality investment......."There is also the issue of the social value of the jobs created. Although 16 Japanese firms have created 5000 new jobs in their assembly plants in Wales the majority are for unskilled women - in a land that desperately needs jobs for men " [BG James ibid]

Alain Gomez, the Chairman of Thomson, France, states that " I think that the British are wrong, completely wrong. They believe that an infusion of Japanese capital and management through transplants of factories will revitalize British industry. I don't believe a word of it. A few thousand jobs in Wales or Scotland are not the issue. The issue is the repair of the national tissue of technological and managerial competence.

There is not one example - not one - of the Japanese establishing a major R&D lab outside Japan. To the contrary, they take technology out of other companies. They are buying our scientists and our technology and our high-tech start-ups. They are taking technology out of the US and Europe. How many European managers are working in Japanese transplant factories ? If British industry has to be rejuvenated by a transfusion of Japanese manufacturing, it would take thousands and thousands of British managers and scientists working in Europe `a la Japonaise' which won't happen.

It's typical European gullibility not to understand the danger. The free traders are confusing the Japanese with the Americans after the war. The rejuventaion, the revival, the saving of Western Europe was a direct consequence of the transfusion of US companies' management, technology and expertise and the opening of US universities to European scholars. I don't believe for a minute that is what is happening now. Japanese business schools and companies are closed to Westerners.

We're creating a free-trade arena between ourselves in Europe; that's a good idea. But in doing that, we've given the Japanese the best gift they could have dreamed of. We are creating what will be the biggest market in the world for them. And the irony of the situation is that they are the ones who coined the phrase `Fortress Europe'. What a joke !" [Fortune May 4 1994]

INWARD INVESTMENT INCENTIVES - COSTS AND COMPETITION - REGIONALISATION OF EUROPE

"There is NO EC policy context for the rules on financial aid. Some regions in Europe are extremely liberal in their interpretation of what they can offer in terms of grants. A firm choosing between, say, declining industrial areas would be faced with a wide variety of packages " [Philip Head, quoted in EuroBusiness June 1993]

Eire has been mentioned previously as regards the problems caused by its TNC-attraction policy. Its Industrial Development Authority is among the largest owners of industrial land in the country. Apart from offering incentives and grants, inward manufacturing projects are guaranteed a corporate tax rate of only 10% until 2010.
[Financial services companies coming into Dublin IFS Centre can have a rate of 10% until 2005]. There are capital grants of up to 30% of the cost of new fixed assets, advanced factory sites, up to 100% training grants, repeatable R&D grants [of which Apple has taken advantage 4 times in the last 15 years], etc. In 1991-92 the % decline in its manufacturing base was only 0.2%, compared to 1.8% in Denmark, 2.7% in Germany and 4.9% in the UK.

Many EC governments have attracted foreign investment via regional development grants, tax incentives, subsidised loans, export credits and the like. Eire, Portugal and Spain have used Japanese investment to accelerate their industrialisation programmes, while the UK, Belgium and the Netherlands have used it to mop up unemployment in depressed regions. Belgium particularly stresses its role as an international centre, as a favourable location for a European base, and its favourable tax environment.

The UK Government White Paper of January 1988 [DTI - The Department for Enterprise] summed up its attitude, emphasising that its policy was to encourage inward investment as " a model to domestic industry......and.....a valuable way of building the strength of the economy ".

It is extremely strange that a UK goverment so irrevocably wed to free market forces in not assisting its domestic firms [which are tax-paying, "real-employment" creating and research-intensive], will alter market conditions to favour foreign TNC's ......" Fujitsu's planned $400m move to North-East

England would not have arisen if normal market forces had been left to take their course......The reason the Japanese are here is because it is the only way that they can gain access to the European market. Let us not say it is a vote of confidence, it is part of economic colonisation. The sun is rising for the rising sun of investment - that is what Japanese investment means in world terms. If it makes such obvious sense for Fujitsu to invest in the North-East, why can our government not invest in ship-building in the North-East" [Bryan Gould, Labour Party spokesman on Industry, Sunderland press awards, April 1989]

"The closure of the shipyards on the River Wear in Sunderland is still in people's minds. Some saw it as a ruthless but efficient way of paving the way for great industrial diversification of the local economy. But such thinking, while sounding dynamic, misses the point. Wearside needed the shipyards and the high-tech expertise they possessed to take advantage of the shipbuilding upturn now evident " [Washington Star 1/11/90]

There is competition, not only between EU countries, for FDI, but within those countries, with various development agencies, assisted areas, etc. The scale of wasted expenditure may be a fruitful area for research, e.g. between areas in the UK to attract Japanese car companies. BMW in 1993 announced the site for its first car plant outside Germany, in Spartansburg, South Carolina, where wage rates are half those in Germany and there are no unions. It whittled down the choice from 250 other locations which were trying to get the plant.

From 400 initial submissions, 42 local authorities in UK made expensive presentations to get the Nissan Sunderland plant. Nissan received £120m of regional aid and selective financial assistance for the single union plant, over a third of the total cost. The crude cost-per-job of £44,000 was twice the average of assistance for other new company starts in the region [Corporate Power in the Local Economy, S.Crowther and P.Garrahan Industrial Relations Journal].

Different countries [and regions] can offer different benefits to inward investors, and possibly should target their prospects better than using the existing shotgun approach. Recent work by Stratchclyde University suggests this approach
[Targeting Policy as a Competitive Strategy for European Inward Investment Agencies, S.Young, N.Hood and A.Wilson, European Urban and Regional Studies, 1994-1-2]. For different types of project, it is recommended that the necessary requirements indicate certain locations, e.g. distribution centres at the heart of the EEA etc. A co-operative policy, if only within countries, could save huge amounts of taxpayers' money.

Accumulated Japanese FDI statistics for Europe in 1991 showed that the UK had 38.2%, the Netherlands 21.5%, Luxembourg 8.6%, Germany 8.5% and France 7.2% - the high locational distribution to the Netherlands and Luxembourg was "largely for tax and other legal reasons " [Does Ownership Matter ? ed. M.Mason and D.Encarnation, Clarendon Press 1994]

UK success in attracting Japanese companies, by offering the right mix of inducements, was at first criticised by other EU governments as creating "back-door imports". However, in the light of their own unemployment problems, and the lack of action by the EC against the UK, all other EU governments are actively pursuing such policies, along with the short-term panaceas of deregulation and denationalisation.

All nations, regions and sometimes even cities and counties in Europe have their own expensive bureaucracies scouring the earth looking for inward investment, but few systems to monitor its effectiveness, and no yardsticks upon which to judge its effectiveness for the EU as a whole. Japan and America are now focused upon Asia, not Europe, which is seen as a low-growth area. In turn, Europe is now looking for Third Wave investors such as Korea, Taiwan, Hong Kong and even Indonesia. These nations are bringing low technology investments into Europe, and each inward investment bureau seriously needs to examine its raison d'etre.

Samsung of Korea decided recently to locate in Teesside in the North-East of England, instead of Scotland, after looking at sites in Yorkshire, Spain, Eastern Europe and Ireland [- incidentally all cheap labour locations]. Shortly before the decision was announced, the Northern Development Council, representing Teesside, learnt that it had lost the site to Scotland. The NDC understood that the £58m package from the Department of Trade and Industry was not enough, so its leader asked the DTI to increase its grant and flew to Korea with a 20% higher offer. The plant is to assemble computer monitors and microwave ovens, and will later make fax machines, colour display tubes and PC's.

In 1992, foreign companies initiated 300 projects in the UK, helped by £100m in regional grants - so far the UK has attracted around 3500 US, 2000 German and 200 Japanese manufacturing businesses, providing around 16% of all UK manufacturing jobs. However, the US preference for the UK is changing and focusing closer to home in Mexico and South America, and Japan has actively moved to higher growth areas than Europe.

A study by Coopers and Lybrand concludes that the UK risks losing out on high-quality foreign investment [Financial Times 13/10/93]...." The UK could be squeezed during the remainder of the 90's between higher cost, but more centrally-located competitors within the EC, and the emerging economies which can cut our cost base and which now appears able to match the UK in terms of quality "

The "regionalisation" of Europe, as noted, has led to companies rationalizing their outlets. Nike has 28 warehouses across Europe, including one in Tyne and Wear, which employs 90 people. It is centralising all its warehouse and distribution operations throughout Europe into one mega-warehouse in Belgium in 1996, the decision being taken at board level in the USA.

CONTROL AND ETHICS

There is no control [and little interest in] TNC's such as those which import carpets from Asia that rely entirely upon indentured, low or no wage labour including children. Indonesia has carried out genocide in East Timor for twenty years. China has systematically destroyed the cultural fabric of Tibet, and has a larger population in prison camps than Soviet Russia ever had. Children work in maquiladores in Mexico in disgusting conditions for USA TNC's. The Nike-Indonesia affair has been referred to previously.

A modern six-year-old factory in the Midlands has been closed by British Polythene Industies in 1995, and 150 workers, making polythene carrier bags for shops, have been thrown out of work, as production has been switched to China. UK workers' wages of just £250 per week compare with a rate of £25 in Guandong Region, which offered tax breaks to foreign investors. However, " the regional authorities have been condemned by labour organisations for allowing Dickensian employment practices " [The Independent 7/2/95].

The most secretive Western economy, with some of the biggest TNC's in foods and pharmaceuticals, is Switzerland. One of its weapons producers, Oerlikon, used British and Belgian subsidiaries and a circuitous route to move arms to Iran. The embargoed order for 140 naval guns worth £15m used Belgian gun mounts, British parts, and barrels made by another subsidiary in Brazil. The barrels were shipped via a Florida freight forwarder to be assembled with the Belgian and British equipment in Singapore, adding more parts made by a subsidiary of the Singapore Government [Independent 1/4/1995]. The guns then went to Pakistan, which did not require end-user certificates, and from there by lorry to Iran.

Free market ideology is that leaving resource allocation to a set of markets free from goverment influence is the way to maximise welfare. Its effects upon inward investment policy were shown when Kenneth Clarke, then the UK Industry Minister, defended the government's refusal to refer Nestle's takeover of Rowntree to the Monopolies and Mergers Commission......he reportedly upheld the operation of a capital market where the best use of resources is determined by the free flow of capital.

Nestle is well-known for its efforts to sell powdered milk to the Third World to replace breast milk, and for the Swiss secrecy behind its global facade.

Less well-known is its clever ability to avoid UK taxation since its takeover of Britain's best -known confectionery firm Rowntree-Mackintosh, a company dating back to 1725 [leaving only Cadbury-Schweppes as an international player]. There are well-documented barriers to takeover bids of Swiss firms [Safarian 1993], and there were no obvious economies of scale, but Nestle had conspicuously failed to build any new confectionery brands in the UK market.The government refused to countenance any reference to the Monopolies and Mergers Commission, when the Trade and Industry Secretary, Lord Young, arrogantly [and wrongly] boasted " we are creating our third empire. We are buying up the world. It would be wrong to send out a signal that we're protectionist on artificial grounds " [Financial Times, 26/5/1988]. Kenneth Clarke, then Trade Minister, stated that Britain's position as "the main overseas predator " justified not blocking such bids in Britain [Financial Times 26/5/1988]. This Conservative illusion of a "third Empire" where everyone is on a level playing field cannot be justified.

In July 1988, Rowntree had 29,000 employees and 25 factories in 10 countries, with sales of FFr 3.2bn, of which over 56% was outside the UK. The first strategy that Nestle adopted when it took over Rowntree-Mackintosh was the transferral of ownership of global brands back to its Swiss HQ. Rowntree now has to pay a licence fee to produce its own brands, which have been relaunched as Nestle's Smarties, Nestle's KitKat, Nestle's Quality Street etc. KitKat was a global leader, and other "rebranded" international best-sellers included Rolo, Caramac, Munchies, After Eight, KitKat, Fruit Pastilles, Toffee Crisp, Drifter, Fruit Gums, Lion Bar, Yorkie Bar, Black Magic, Golden Cup, Aero Chocolate and Gales Honey, etc. This ensures that all profits are repatriated easily to Switzerland and that Nestle does not have to pay normal UK taxes. The importance of brands had been noted by the Rowntree company secretary, R.Nightingale "For years we have been trying to reflect the value of our brands in our share price, but without much success. As a consequence there have always been takeover rumours." The £2.6bn takeover in 1988 was the largest in UK history after the takeover of Midland Bank by Hong Kong and Shanghai Bank for £3.6bn [1992] and that of Beecham by SmithKline for £4.5bn [1989].

Nestle also since rationalised UK production. Rowntree's retail stores operations in the USA [Original Cookie, Hot Same, Gorant Candies] have been sold. Rowntree's Mackintosh factory in Norwich was closed in 1994, after 108 years of production, with the loss of 900 jobs. Nestle also closed its Crosse and Blackwell factories in England and Scotland with the loss of over 500 jobs in late 1994. Crosse & Blackwell production of sauces, baked beans, soups, ketchup and mayonnaises has been taken over by the Maggi and Thomy operations on the Continent. In three tranches of job cuts in summer 1994, Nestle cut 2000 of its 17000 strong UK workforce. Production of the Lion Bar moved from Newcastle to France. As with most TNC's the UK government receives little benefit from minimal corporate tax yields, and has picked up the tab for another 2000 people disappearing into the black hole of UK unemployment. Including lack of taxes [direct and indirect] plus payment of social benefits, this action by Nestle will probably cost the UK taxpayer over £20m.

[Nestle took over Maggi in 1947, Crosse & Blackwell [1960], Locatelli [1961], Findus [1962], Vittel [1969], Libby [1970], Ursina-Franck [1962], Stouffer [1973], L'Oreal [minority interest 1974], Alcon [1977], Chambourcy [1978], Hill Brothers [1985], Carnation [1985], Herta [1986], Buitoni-Perugina and Rowntree [1988], Perrier [1992] and Finitalgel [1992] in the process of becoming a global TNC with plants in 60 countries. Its 1989 Company Report states " The acquisition of Buitoni and Rowntree reinforces the positions of the group with regard to both territory and products. Nestle's presence in Italy has become significantly stronger and the UK now ranks fourth among our markets [after the US, France and Germany] as far as sales are concerend. In terms of products, Nestle has become one of the world leaders in chocolate and confectionery, a product group which will account for about 16% of consolidated sales in 1989, compared with barely 8% in 1987.........However, apart from the reinforcement of specific positions in certain markets, the acquisitions of Buitoni and Rowntree are to be seen within the broader context of the Single European Market, and above all, of the general trend toward worldwide competition among large groups in the food industry "

An interview with an IT project manager made redundant after 16 years revealed several impacts upon company morale. Nestle completely cut out local community initiatives. There had been, under the Quaker traditions of the Rowntree family, a strong concern for employee and community welfare with many employees' parents and grandparents also having worked for Rowntree. The complete eradication of funds and grants set up for employees, for example grants for employees to draw upon in the circumstance of them having children gifted in sport or education, was a bitter pill to swallow for the local communities. The manager was sorry to see the company she had worked for slowly get swallowed up under constant rationalisation. Above all, she was angry that there was so little protection for UK companies against such hostile takeovers. She highlighted the fact that under Swiss legislation, foreign companies may acquire a stake in one of its companies, but not a controlling interest.

With regard to the takeover battle between Jacobs-Suchard and Nestle for control of Rowntree, it was noted [The Times 9/5/91] " many who watched two substantial overseas businesses battling over Rowntree felt that instead of a level playing-field, the takeover arena had become a killing-field ".

With continuing high levels of unemployment in the EU, job creation has slowly floated into the consciousness of national political leaders, leading to increases in the type and magnitude of inducements to attract that "instant panacea", inward investment. Companies closing, and redundancies, can easily be blamed upon global factors, but a new assembly plant/shed can be trumpeted as a triumph for the ruling politicians, who are creating a wonderful environment that attracts foreign investment and creates jobs. There is a spiral effect at work here as regions and governments compete - the DTI raised its contribution from £2m to £7m to enable Telford in the UK to prevent a new NEC investment going to Hanover in Germany. Ohio "got" the Honda plant for $16m granted to Honda in 1982, but the going rate was upped to $125m in incentives for Toyota to go to Kentucky in 1985. Nissan achieved around £100m in government grants, 25% of total costs, when it decided to go ahead with stage 2 of its UK operation. The bulk of the £100m in grants has gone to Japanese equipment suppliers [B.G. James Trojan Horse, ibid]. UK taxpayers [like US taxpayers] are subsidising Japanese car operations that will hurt its EU colleagues, and bring little benefit to UK suppliers, and none to other UK producers of cars.

The UK Government went ahead with offering a £61m grant to a Malaysian division of the Taiwanese corporation, Hualon, against the wishes of other EU members, and with the knowledge that criminal charges had been brought against its principals. At least two member countries made the case that the factory would displace existing EC jobs. [The Conservative government in 1994 was heavily dependent upon the support of the Ulster Unionist Party for its parlaimentary majority. The investment, in a political stronghold of the Unionists, in Ulster, Northern Ireland, was the biggest since the De Lorean car fiasco]. Fortunately the deal appears to have fallen through, but it demonstrates the lack of thought concerning the effects upon other European producers, plus the eagerness to take any inward investor at the cost of domestic and EU companies.

Inward Investment has been made into a "good news" item by the propaganda machines of the EU and its members. Against a background of rising male full-time unemployment and rising female part-time employment, a political party can boast a "triumph" in attracting a foreign investor that will create a few hundred jobs. The type of job is never specified in detail. What the recipient of such information is not told is that it will take several thousand Samsungs or Lucky Goldstars to set up in the UK for a significant shift in unemployment to occur. The real figure for UK unemployed is well over 4 million, according to the Royal Society of Statisticians. 20,000 average size cases of inward investment could possibly wipe it out, assuming all the jobs they create are full-time and over half are for males. [Over 14 years, the Conservative massaged the presentation of unemployment figures at least 30 times, of which 27 were in a downward direction and 2 were neutral in their effects. Many people, e.g. those made redundant, are not now classified as unemployed. One of the interesting side-effects is that if I close a factory with 3000 skilled full-time males and replace it with hamburger-flipper jobs employing

3001 students and part-time women, unemployment will have dropped, according to Government statistics].

In Wales, the Welsh Office and the Welsh Development Association are constantly reminding the public via the media of their success in bringing in FDI. However, a recent survey showed that of 51000 jobs publicised, only 30,500 [60%] were ever created over the last 4 year period. The Welsh Office claimed that 769 assistance grants were offered to companies to create 51013 jobs between 1988 and 1992. Some factories were never built. One project for 52 jobs actually employs 4 staff and a part-timer. £176m was paid out in Regional Selective Assistance grants during this period.

A final moral issue is that of "economic blackmail". Jaguar was recently taken over by the profitable Ford company, but Ford then bargained with the UK government by threatening to take production of the new "small" Jaguar to the USA. [Ford Chairman, Alex Trotman, made it clear that government aid was a sine qua non if the car was to be made in Britain [Sunday Times 9/10/1994]. The engine will be made by Ford anyway, assembled in its Bridgend, Wales plant. The UK government has offered a package of up to £100m to enable the Jaguar to be made in Britain.
[Sunday Times 26/2/95] Ford made profits of $6.6bn before tax in the first 9 months of 1994. The Government's " well-trumpeted success in attracting Korean and Japanese multinationals to invest in Britain has clearly not gone unnoticed at Ford, or at other multinationals. They sensed, reasonably enough, that the Government's new pro-manufacturing stance - not to mention its weakness in the polls - makes it more vulnerable to threats of this kind than before " [The Independent 7/1/1995]. Ford's chairman had made it plain that Ford would want a "considerable contribution" as a condition to starting production in England. In March 1994, Jaguar had received a £9.4m grant from the UK government to deter it from moving production of the XJS sports car from Britain to Portugal. Upon taking over Jaguar, Ford halved the workforce to 6700 in just three years.

Strangely, the British government has chosen this time to call upon the EC to commit itself to tighter enforcement of EU laws against government subsidies, in order to reduce the level of state aids to industry over the next five years. Mr Heseltine says large state aids threaten achievement of the Single market, and that he wants "to ensure that greater attention is focused on aid that provides little of no benefit to the Community and unfairly disadvantages unaided competitors " [Financial Times 1/5/95].

UK, EU AND OTHER EUROPEAN LEGISLATION ON MERGER AND AQUISITION ACTIVITY

The UK's merger policy seems to be that "strongest is best" in the interests of creating a stronger economic unit. There are no mandatory foreign investment approvals [except for some minor approvals and notifications in sectors like banking and finance]. The government has reserve powers that enable it to intervene when there is a change of control [30% or more] of an "important manufacturing undertaking" which is perceived to be contrary to the interests of the UK. This is seldom used, but assurance is probably necessary in the case of acquisitions in the defence industry.

Merger control in the UK is regulated under the 1973 Fair Trading Act, unless the acquisition meets EU merger control regulation thresholds, in which case EU rulings take precedence. The Office of Fair Trading and the Monopolies and Mergers Commission carry out investigations into mergers and takeovers and act as advisers to the Secretary of State for Trade and Industry. There is also a self-regulated City Code on Take-Overs and Mergers when the acquisition of a public company is involved.

The UK market for corporate control is highly active. Between 1972 and 82, one in three of the largest 730 companies quoted on the Stock Exchange was acquired, while in the mid-80's boom, 137 of the largest 1000 non-financial companies were absorbed by take-overs. From 1985-87, takeover bids were initiated for 14 large UK companies, each with a market capitalisation value of over £1bn.

FOREIGN ACQUISITIONS IN THE UK 1985-1992

Year	Number	Value £m

1985	82	796
1986	102	3950
1987	108	4299
1988	198	8877
1989	253	17460
1990	305	13873
1991	141	4478
1992	89	5642

With regard to the Nestle takeover of Rowntree, we can see the lack of a level playing field. Although there are no foreign investment requirements of general application in Switzerland, there is a considerable regulatory framework that directly or indirectly affects mergers and acquisitions. Lex Friedrich [1987] is a law which regulates and restricts the acquisition by a foreign entity or person of real estate and must always be taken into consideration if the target owns real estate. It is, however, possible for a foreign company to obtain approval for the purchase of shares in a company where the real estate is used exclusively to house its business activities. Minority stakes of up to 30% of the voting capital are also generally permitted. Foreigners are also restricted from purchasing certain companies, notably in banking, media and transportation.

Other factors which make the prospect of acquision in Switzerland remote are the elaborate defence schemes which most Swiss companies have in their Articles to distract raiders and the complex tax structures which include tax burdens for foreign investors of up to three times the federal tax burden.

France's merger policy has been described as "impenetrable". Critics claim that the referral process is fraught with political overtones and bias against foreigners, and there is speculation as to why some referrals are held up while others pass freely. Under 1986 rules, the Minister of Economic Affairs has the last word on merger approval, using "structural" or "behavioural" criteria. He has the ultimate power to approve/disapprove deals. If he passes a merger to the Competition Council, is is usually enough to prevent a deal because of the red tape and time involved.

However, it is not so much the rules that have created the impenetrable reputation, but what has been nicknamed " Le Club Francais " - represented by the insular nature of the French business community which has helped imbue the merger approval process with a certain clubbiness. The bonds between businessmen and politicians are significantly closer in France than in the majority of other capitalist countries. The government chooses the heads of many state-owned industries, Many of those chosen have worked in ministerial offices at some stage in their careers. France's complex cross-linking and inter-company alliances/connections serve to reinforce the political power of this network......." It is extremely difficult to challenge this elite as they are the ones in the position to define what constitutes national interests and invoke them when threatened ....Fearful that aggressive US-style takeovers may be on the rise, the government has denounced them as `wild capitalism' on numerous occasions " [Theo Vermaelen, Mergers and Acquisitions International, January 1993]

ECONOMIC SOVEREIGNTY OF NATIONS

Transfer pricing means that governments find it difficult to raise a `fair' level of corporate taxation or Value Added Tax from TNC's. It is estimated that there may be 1 trillion ECU of transfer pricing pa within the EU and between the EU and the rest of the world, but there is no institution with the power to scrutinise and assess such a volume of transactions.

TNC's also are relatively immune to the interest rate changes with which a country tries to control its economy, as central holding companies of large TNC's act very much like independent treasuries. According to Robert Relsch, treasurer at VW, " we look upon European currencies as a freely floating exchange rate. We treat the pound, lira, peseta and franc just like the US dollar, the Canadian dollar and the yen " [FT 15/12/1993] There are over 30 international offshore financial centres around the world, and Salomon Brothers in New York estimates that half the world's financial transactions involve offshore tax havens, as multinationals minimise their tax payments.

As far back as 1976, the UK goverment gave Chrysler £162.5m in grants, but it sold up to Peugeot in 1978 without carrying out a single one of its commitments. Ford was also conducting a "massive shift away from British investment in the 1970's " contributing to both unemployment and the trade deficit [Reich, 1989, quoted in Transnationals and Governments, D.Bailey, G.Harte and R.Sugden, Routledge 1994].

No lessons seemed to be learned by the succeeding Conservative government, and the overall level of assistance offered to incoming foreign firms, including tax relief and other expenditures amounted to £1.5bn in 1981, according to Brech and Sharp
[quoted above] It could definitely be argued that the government favoured foreign firms when it came to giving assistance to invest in development areas. The Trade and Industry Secretary, Norman Tebbit, argued " of course there is justification for particularly attractive terms to bring to this country internationally mobile projects which otherwise might have arrived in, for example, another part of the EC and would have free access to our markets, but would not provide any jobs " [Financial Times 7/6/1984]. It appears that all other EU governments have now adopted the same "beggar my neighbour" attitude.

At the same time that the government was shovelling £130m towards Nissan to set up in the North-East, a British Leyland truck plant in Scotland and North-East Shipbuilders were being squeezed out of existence by subsidised foreign competition, with far more unemployment [and engineering skills] than Nissan will ever replace in the UK. In the next few years, Austin-Rover was sold to BMW [effectively a single Bavarian family], Lotus to GM then to Bugatti then to Benetton/Bonomi, Aston Martin-Lagonda to Ford, and Jaguar to Ford, leaving a domestic car industry capable of producing in total 1500 cars per annum [TVR , Morgan, Caterham] plus Rolls Royce [1200 cars per annum], which will probably leave UK control in the next year. The British ship-building industry is almost extinct, and could not tender for the latest Cunard cruise liner, Oriana. In April 1995 it was announced that the last manufacturer of railway locomotives in the UK was to be closed by its Swedish parent.

" Of the world's 100 biggest economic units, half are countries, half are transnational corporations..........traditional arm's-length trade between different corporations in different countries is no longer the dominant pattern. More and more, trade is between different parts of the same global corporation or between joint ventures. Half of America's total trade is estimated to be of this kind; and as much as four-fifths of Britain's " [Beyond Free Trade to Fair Trade, Neil Kinnock, California Management Review Summer 1994]

Overall dependence upon foreign companies for industrial growth, as practised by the UK government may lead to Britain acquiring the status of a "branch plant economy ". Peter Dicken [Global Shift] concludes that foreign penetration of a host economy leads to not only "dependence" but truncation, or "hollowing-out".

Dependence leads to a diminution of sovereignty and autonomy, because of the differing goals pursued by nation states and TNC's. Where such firms effectively dominate a host economy or industrial sector, this has serious consequences. The most significant aspect of dependence upon a high level of FDI [- the UK attracts 40% of the EU's total] is that of "technological dependence"......"the continued ability of a country to generate the knowledge, inventions, and innovations necessary to propel self-sustaining growth.....If a country does not produce its own technology in at least some industries, it is argued, it will suffer slower growth and more disadvantageous terms of trade in the long run.......Technological dependence may mean slower or `distorted' growth and reduced economic sovereignty " [Newfarmer in Dicken]

The second area of concern, truncation, or "hollowing-out" happens at two levels. First, the foreign-controlled plant or firm usually " does not carry out all the functions - from the original research required through to all aspects of marketing - necessary for developing, producing and marketing of goods. One or more of these functions are carried out by the foreign parent " { Government of Canada, 1972, reported in Dicken].

The other, more serious, level, is the truncating effect of foreign dominance upon an entire industry or a host economy as a whole. " As the proportion under foreign control rises, an industry becomes a shell. In terms of its products, the industry seems to be complete and comprehensive, but large elements of the production system are missing or deficient" - the result is the hollowed-out, or `shell' economy [Britton and Gilmour]

A high level of foreign penetration will " inhibit or suppress the development of indigeneous firms either because foreign plants create few local linkages or because indigeneous firms are squeezed out by the competitive strength of foreign plants which are backed by much larger resources" [Dicken, ibid].........................
"Thus much of the drive, enthusiasm and invention that lie at the heart of economic growth is removed, reduced, or at best, suppressed......one would expect that the region would not be a leader in developing new products, processes and technologies, which, in turn, suggests that innovation will not be a major force in the local economy, which further implies that there will not be a substantial development of new enterprises or indeed of growth within existing enterprises "
[Firn, quoted in Dicken]

Another problem of high penetration, e.g. where Japan controls 30% of the US automotive sector via imports and transplants, plus component requirements, is the effect upon the Balance of Trade. Latest figures indicate that $37bn of the USA's $60bn Japanese trade deficit is due to the Japanese motor industry. Similarly, the EU's trade deficit is harmed by the growing penetration of Japanese production in the UK.

The best-documented case of TNC dominance, Canada, has a high level of US investment, and Britton and Gilmour [The Weakest Link] directly attributed Canada's relatively poor industrial and trade performance in manufacturing to the high level of FDI. Partially as a result, Canada must pay 9% yields on its 10 year government bonds, as foreign investors are fleeing a sinking currency in a country where the national debt has risen to equal GDP.

The unusually large presence of TNC's in the domestic UK economy may have played an important role in its deindustrialisation. In terms of both the number of British-owned companies that have overseas operations, and the number of British-based companies that are subsidiaries of overseas corporations, Britain is second only to the USA and Canada respectively. "Giant, global companies have grown enormously in size and importance over the post-war period and have increasingly shunned Britain as a base for their activities, preferring instead to relocate gradually in the newly industrialising countires of South-East Asia. As a result, the natural run-down of the so-called "sunset" manufacturing industries [car and truck production, textiles, heavy engineering, shipbuilding] has been sharply accelerated by the withdrawal of TNC's from these activities [N.M. Healey ibid]................"Systematic, coherent industrial policy, the prerequisite of any serious attempt to arrest Britain's economic decay, is conspicuous by its absence. In its intellectual commitment to free markets, the Conservative government instead spent the 1980's standing idly by as both British-owned and foreign-owned TNC's deserted the industrial heartlands of the North in favour of offshore production in the NIC's of Southern Europe and South-East Asia, leaving behind only their London-based head offices and the service jobs these strategic management centres require in the South.............as Cusick grimly observed....the North is turning into a third world economy. If I was a foreigner travelling North, I think I would believe I was travelling into another country......we [the North] are a lost colony "

"Globalisation, combined with the 1992 developments in the Common Market, threatens not only to exacerbate Britain's drift towards becoming a low-value added assembler of high-value components made elsewhere, but also to reproduce this division of labour within Britain itself in regional and local imbalances " [Beyond the Casino Economy, N. Costello et al, Verso 1989].

"As much as Thatcherism strives to keep Britain free from foreign invasions when it comes to refugees from the Third World, it has been more than welcoming to foreign economic interests, from the USA and especially from Japan. By pursuing such a world-market oriented strategy, the structure of Britain's industrial specialisation has come to resemble that of semi-peripheral countries, with its specialisation in sectors that are not research intensive " [Global Capitalism and National Decline, H.Overbeek, Unwin Hyman 1990]

In the global market, investment is easy - because of computers, information highways and round-the-clock trading, capital swirls through the world's financial systems at high speed and in volumes hundred of times higher than trade flows, destroying currency systems and undermining governments. Around a trillion dollars is exchanged daily upon the foreign exchange markets.

Robert Reich, Labour Secretary in the Clinton Administration, argued [HBR Jan-Feb 1990] " If we hope to revitalize the competitive performance of the US economy, we must invest in people, not in nationally defined corporations. We must open our borders to investors from around the world rather than favouring companies that simply fly the US flag " - he wishes to solicit foreign investors by boosting the quality and performance of the US labour force. This is to misunderstand the nature of investment flows [and labour]. He wishes to compete with every country in the developed world to attract FDI ......
He also states " There will be no national products or technologies, no national corporations, no national industries. There will no longer be national economies, at least as we have come to understand that concept......Each nation's primary assets will be in its citizens' skills and insights " [The Work of Nations, Vintage, 1992] This echoes what the CEO of United Technologies calls " a world-wide business environment unfettered by Government interference "]

Michael Porter has warned that " widespread foreign investment usually indicates that the process of competitive upgrading in an economy is not entirely healthy because domestic firms in many industries lack the capabilities to defend their market positions against foreign firms......Inbound foreign investment is never the solution to a nation's competitive problems. "

Young, Hamill and Hood concluded that " foreign multinationals never have been and never will be anything other than a modest palliative for the British economy. Certainly their impact on British competitiveness has been limited. "

Deindustrialization has been interpreted as a declining share of manufacturing in total output or employment, or an absolute decline in manufacturing output or employment, or as an inability to compete internationally in the production and export of manufactured goods. In terms of domestic companies, the UK meets all these criteria. Similarly, Belgium, with the highest long-term unemployed ratio in all industrialised countries, suffers from an extreme dependence upon non-national TNC's.

The modern nation state grew like an amoeba, throwing out pseudopodia into areas of space. It is now in retreat, folding in on itself, for several major reasons:

1. The speed and volume of capital movements are out of control by any single body;

2. Information Technology has broken down many barriers between states;

3. Accelerating Globalisation of manufacturing, services and knowledge has allowed TransNational Corporations to purchase resources at the lowest common denominator;

3. All Western governments try to attract TNC's, and see Deregulation and Free Trade as vital panacaea for economic growth;

5. The strategic policy that follows 4. means that nation states must surrender any economic sovereignty;

6. There is therefore an ongoing shift from corporate taxation towards taxation upon the individual, plus a consequent placement of a higher burden for education health and pensions;

7. The surrender of sovereignty means that nations are increasingly less able to fulfil the welfare requirements of a substantial proportion of their citizens;

8. Citizens in work must compete in a climate of uncertainty, and constantly try to increase their personal knowledge:cost quotients; some citizens - "the underclass" will never work;

9. Control of inflation will defeat any "feel-good" factor because of "the money illusion"

"In this bewildering new world the nation-state is no longer the engine of modernisation. Instead it has become the "Jesus Rail" - the handle that a white-knuckled passenger clings onto shouting "Jesus", as the car he is travelling in hurtles round a blind corner. The world is hurtling into the third millenium at terrifying speed, and we all feel the need for something familiar to hold on to: a community, a group with which we share a language, culture and collective memory; a nation, in fact " [Edward Mortimer, The Financial Times, 6/4/94]

Unless the economic power and tax avoidance of TNC's is addressed, the structural power balance between the EU member states and TNC's will drift to the point where there are no economic sanctions available to the EU or its members. Governments will have abdicated their responsibilities, via a lack of industrial policy at the EU level, to provide a reasonable welfare infrastructure for their citizens. If nation-states no longer have social or economic power, their raison d'etre ceases to exist. This is also true of the EU as a whole - there is no coherent or logical leadership to meet extra-EU competition. The present laissez-faire approach is a throwback to Victorian times.

Leakage from the UK taxation system via "lost" taxation could be around £9bn, and the EU probably has around the estimated US level of $35bn pa. To these losses PLUS their multiplier effects, we can add the following costs of TNC domination of economic sovereignty:

1. The Costs of Grants, Incentives, Capital Allowances, Rate Exemptions, Subsidies and Support Agencies like the Welsh Development Agency, Sunderland Enterprise etc. With intra EU competition to gain Japanese investment, the EU has been literally taxing itself to give Japanese assembly plants an advantage over domestic manufacturers. Countries, provinces, regions, counties and cities are competing for the same `prize' at huge costs.

2. The Cost to the Balance of Payments in Inwardly-Sourced Components and Capital Equipment. "all the Japanese bring in is not a new standard of operating efficiency but more tied imports " [K.Williams et al, ibid]

3. The Depression of Wage Levels and Employee Rights, partly via the employment of part-time female labour [half the workforce in Japanese factories in Wales]. There has been a constant attack upon employee rights and unions in the UK to make the country more `attractive' to foreign multinationals. A series of laws makes it virtually impossible for employees to challenge employers withou being sacked, and the number of trade unionists has consequently halved since the Tory victory in 1979. [Unions can be asset stripped and/or subject to unlimited fines - there are no such provisions for employers]. The proportion of male full-time employees with gross weekly earnings less than the Council of Europe's `decency threshold' doubled in the UK between 1979 and 1993 to 29.3%. The UK is now "the least regulated economy in Europe, with the longest working hours in Europe, no legal

limit upon the number of working hours, no minimum wage protection for the low paid, and no statutory right to paid holidays".

4. The Cumulative and Exponential Losses of the Multiplier and Accelerator Effects from Displaced EU Companies which would otherwise be ploughing back taxes into their domestic economies

5. The Removal of Skills, Engineering, Design and Development from the EU
as we move towards a low-value-added economy. - Japanese sites in the UK are not of manufacturing excellence, but "operations that safeguard direct exports from Japan, final assembly lines to meet local/EU demand " [K.Williams, ibid] Professor Chris Voss found no evidence that TNC's are more competitive - inward investment has not helped improve the efficiency of UK aotomotive component makers [IBM and LBS Study - Made in Britain, 1994].

6. A High Level of Foreign Penetration of Industry tends to suppress the development and growth of indigenous firms. because foreign firms have fewer local linkages, and because local firms are squeezed out by companies with far greater resources. The classic Japanese market entry technique is to cross-subsidise and go for market share at all costs, only concentrating upon profitability when market dominance is achieved by the elimination of local competition.

7. The Loss of Skilled Employment as Domestic Companies are Displaced, and the Cost of this Unemployment to the State - transplant operations generate only half the employment that indigenous firms would create [K.Williams ibid].

8. Future Waves are bypassing the EU, with its declining base of engineering and research skills. [UK manufacturing employment has dropped from 6.8m in 1980 to 4.5m in 1992]. All the major Japanese and American players are already in Europe. The third wave will not be of the order of the first two as the market is not as dynamic, and consequently less attractive.

9. Service Sector Penetration The UK and US service sectors accounts for 50-60% of the economy, with manufacturing at 20-30%. According to the McKinsey Global Institute, TNC's are targeting this sector for real growth in market share [Why Globalisation Must Prevail, W.W.Lewis and M.Harris, The McKinsey Quarterly, No2, 1992]. Services are more difficult to trade [only 20% are tradeable overseas according to a 1985 Committee of the House of Lords], so FDI is the easiest way to grow in this sector. Further transfer pricing in this sector will all but wipe out any government taxation revenues in countries like Belgium, the UK and USA. Services accounted for 25% of world FDI in 1970, but now account for almost half. [Manufacturing accounts for 70% of the UK's export earnings. The export of financial services or tourism would have to increase by 10% for every 1% reduction in the sales of manufactured goods abroad - the committee of the House of Lords concluded that "services are no substitute for manufacturing because they are heavily dependent on it and only 20% are tradable overseas "].

10. The Threat of Mobility - the treat to withdraw, or refuse to invest, gives TNC's tremendous leverage leading to monopolisation, deindustrialisation and the undermining of democracy [Cowling and Sugden, 1993].

11. The Increases in Individual Taxation in the UK since 1973 are due partly to the lack of ability to tax the TNC's that control the UK economy. This contributes to the lack of a "feel-good" factor in such economies, making it longer to come out of recession as people not only fear for their jobs, but refuse to purchase products until it becomes necessary to do so.

Edouard Balladur, the French Prime Minister, has summarised the situation " Can we [West Europeans] take it for granted that we will remain sufficient leaders in a sufficient number of sectors to survive - in the face of countries with populations infinitely larger than ours and with levels of social protection infinitely smaller ? I say we should leave this to the market, but only to a certain point. What is the market ? It is the law of the jungle, the law of nature. And what is civilization ? It is the struggle against nature ". [Financial Times 31/12/1993]

The Bavarian family which owns BMW, took over Britain's last volume car manufacturer at a knock-down price, of under £600m, with its range of best-selling Rover saloons, and the Landrover/Range Rover lines. [The cost of developing a new car is around £1bn]. Michael Heseltine, in charge of competition policy in the UK, remarked that "ownership does not matter", although it is generally acknowledged that engineering and design functions will gradually be transferred to Germany. Leon Brittan, when EC Commissioner for Competition, stated that " I'm not persuaded that there's any difference in working for a Japanese computer company or a French one..............The question is not why open up to Japan, but rather why can't Europe face competition ?" [Fortune May 4 1992].

Competition, for the Free Traders, means deregulation, opening of borders and attracting FDI. Between a quarter and a third of Belgian companies were taken over by companies from outside nations in the 5-year run-up to 1992. With Eire, it has the strongest concentration of TNC control of its industry and services, with the UK in third place in the EU. The UK has some GNP protection with a few domestic TNC's remaining, but the Belgians and Irish have none.

Free Traders are locked into a nineteenth century theory of comparative advantage that worked for relatively closed economies - it did not take the nature of ownership of industry and services into account. There is little or no control over foreign TNC's by Western governments - the touching belief that market forces will secure growth for the EU has been patently disproven in its most open economies. Governments must help their own economies to compete, as Japan, Germany and the Tiger nations have demonstrated. The mark of a successful economy that can offer a reasonable future and an adequate welfare safety net for its citizens, will not be measured just in terms of GDP growth, but in terms also of its GNP:GDP ratio.

The EU's inward-looking approach, that creating internal competition will cause member companies to become leaner and fitter to meet external competition IGNORES the fact that global Swiss/Japanese/American companies are already so strongly entrenched in Europe that they are the major beneficiaries of the Single Market. The EC discourages subsidies and incentives as they "distort" internal trade, despite the fact that outside competitors are heavily subsidised. Far from creating effective barriers to foreign firms, the EU nations actively encourage them. The Japanese particularly have the global scale to dominate high-tech industries in Europe. A recent Henley Report stated that the vast, fragmented, barrier-prone industries in Europe, where the gains are greatest, are the fast-growing technological sectors - precisely those in which the Japanese excel.

A leading British academic, Professor John Kay stated " What free trade does everywhere is to widen the differentials between the successful/unsuccessful workers and, for that matter, unsuccessful firms. For those with truly distinctive capabilities, there is a wider stage upon which to apply their talents; for those who lack them there is only more competition. That is why freer trade has been associated with widening income differentials within countries and higher levels of unemployment " [Daily Telegraph 28/12/94]

If we could follow this logic through, it applies to countries like the UK, Belgium and Eire. Using Porter's 5 Forces model, there are low entry and exit barriers, poor domestically-owned industrial strength, many suppliers and the strength in the value chain lies with buyers. When ownership of its resources leaves a nation, it loses the ability to raise sufficient revenues to provide a reasonable welfare provision for its citizens. In effect, it gives up the right to govern.

FOOTNOTES:

@1 The services sector is going the same way as manufacturing in the UK. One of the four major clearing banks has gone, Midland Bank to Hong Kong and Shanghai, and most investment banks operating in the City will soon be foreign-owned.

A cursory roll-call of famous brokers and merchant banks to go into foreign ownership since 1987 includes Barings, Warburg, Morgan Grenfell, Charterhouse, Standard Chartered, Guinness Mahon, Hoare Govett, Alexander Laing and Cruickshank, and Ansbacher. Smith New Court is under threat. Continuing problems at Lloyds and the London Stock Exchange, coupled with mis-selling of pensions by every major player, make a mockery of the Conservative boast that the UK leads the world in services, which can more than make up for loss of ownership of manufacturing. London will remain a major commercial centre, but financial services will be operated from there by an increasing proportion of better-managed, better-resourced efficient foreign companies. Again, globalisation will mean further leakages of taxation from the UK, leading to less state provision towards welfare requirements, and a deteriorating GDP:GNP ratio.

@2 In his seminal book, " The Death of Economics ", Professor Paul Ormerod, a professional economist, formerly Director of Economics at the Henley Centre for Forecasting, states " European readers in particular will see the symbols GDP {Gross Domestic Product] used more frequently in media discussions of economics than GNP. There is a small difference between the two concepts, which even in a discussion on economic accounting principles is too mind-numbingly boring to bear repetition. But for all practical purposes, in most economies, they are the same, particularly when comparing not just the size of the economies but their growth rates over time. " I sincerely hope that this paper demonstrates the importance of the difference between GDP and GNP, and the problems inherent in multinational domination of economies. Countries with a deteriorating ratio face immense problems.

@3 My point about R&D not being carried out by Japanese multinationals in their overseas operations is demonstrated in the annual R&D expenditure survey printed in The Financial Times, 22nd June 1995. Sony UK the only Japanese multinational to feature, and spends £4.7m against a turnover of £1,442m, or 0.3%. If we look at a British electronics multinational [for which I have carried out many consultancy projects], Domino Printing Sciences plc, their similar spend of £4.6m is 5.1% of their £90m turnover, or 170 times the Japanese ratio.