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EFFECTS OF THE GROWTH OF FOREIGN OWNERSHIP OF, AND PENETRATION INTO, UK, BELGIAN AND IRISH ECONOMIC SECTORS, 1978 - 1996

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THIS PAPER IS AN ABSTRACT OF ONGOING RESEARCH INTO TRANSATIONAL CORPORATION BEHAVIOUR, WHICH IS BEING DEVELOPED INTO BOOK FORM. AS SUCH, MANY ARGUMENTS ARE NOT DEVELOPED FULLY WITHIN THE BODY OF THE TEXT. IF INTERESTED PARTIES WISH FOR UPDATES, KINDLY INFORM ME.

EFFECTS OF FOREIGN DIRECT INVESTMENT UPON THE EUROPEAN UNION

ABSTRACT

EU trade policy operates in a framework which has tended to ignore governmental assistance to non-domestic multinational operations setting up/expanding in EU countries. At the same time, support for indigeneous industries is illegal except in extreme, agreed circumstances. This differential policy has allowed certain substantial sectors of nations' economies to become foreign-owned, which can deleteriously affect a nation's ability to fund socio-economic policies. National governments and regions compete to attract non-national companies, while being unable to support domestic companies against this new competition. Along with increased market shares of foreign imports, this displacement of "national" ownership of the economy leads to an important decline in the GNP:GDP ratio, mainly because of transfer pricing and tax avoidance.

INTRODUCTION

" 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. 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.

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 INDICATORS	EU	USA	JAPAN
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" [P.Robson and I .Wootton, "The Transnational Enterprise and Regional Economic Integration", 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

Unfortunately, Japanese companies did not believe in traditional 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. In turn, sports footwear manufacturestablished by Nike, Reebok and Fila in South Korea has been moved on to China and Indonesia for cheaper labour costs.

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 between 1989 and 1992, nearly half took the form of alliances and mergers [Dunning ibid].

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, research by the author found that 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
TAX AS A % OF SALES	4.4%	3.9%	3.8%	3.8%	3.8%

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

TAX PAID in JAPAN 1988-93	% OF SALES	TAX PAID IN UK 1988-93	Deficit
SONY	3.1	1.3	1.8
NISSAN	1.1	0	1.1
HONDA	1.6	[2.8]	4.4
TOYOTA	2.8	1.8	1.0
HITACHI	2.7	0.4	2.3

SHARP	2.5	1.0	1.5
BROTHER	1.8	[0.2]	2.0
MATSUSHITA	3.6	[0.5]	4.1
MITSUBISHI CORP	0.4	0	0.4
MITSUBISH ELECTRIC	2.7	0	2.7
TOSHIBA	2.4	0 [4 UK companies]	2.4
AIWA	1.4		1.4

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. do 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 ownaffairs..... "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

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% .

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 UK 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".

GNP:GDP Ratios 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

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 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 estimated only 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.

Unlike most other European economies, Eire is heavily dependent upon FDI, which accounts for 75% of manufactured exports, 55% of manufactured output and 45% of employment in manufacturing. It only charges

10% corporate tax on corporate profits for sectors that are involved in manufacturing [a loose definition that includes thew ripening of bananas]. The effect of this fiscal drag is that the top rate of income tax is paid by those on the average industrial wage. Another effect is that the EU funds Eire to the extent of 6% of its GNP by support funds, and it has the highest per capita receipt of any EU member. To implement its 1994-99 Development Plan, the Irish government is counting upon Brussells funding 40% of its investment programme.
In effect, then, the EU is subsidising multinationals to set up in Eire.

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.* 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%]. Major 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.

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].

This switch from corporate to personal taxation has been echoed across Europe:
TAXATION YIELDS [source "Taxation in OECD Countries, OECD Paris 1993]

COUNTRY	TAX ON PERSONAL INCOME AS % OF GDP 1965	TAX ON PERSONAL INCOME AS % OF GDP 1988	% INCREASE	TAX ON CORP. INCOME AS % OF GDP 1965	TAX ON CORP. INCOME AS % OF GDP 1989	% INCREASE
BELGIUM	6.3	14.4	129	1.9	3.1	63
CANADA	5.9	12.9	119	3.9	2.8	[28]
DENMARK	12.4	26.6	115	1.4	2.1	50
FINLAND	10.6	17.5	65	2.5	1.6	[36]
FRANCE	3.7	5.4	46	1.8	2.4	33
GERMANY	8.2	10.8	32	2.5	2.4	[4]
GREECE	1.5	4.9	227	0.4	1.4	250
EIRE	4.3	14.4	299	2.4	1.3	[45]
ITALY	2.8	10.0	257	1.8	1.6	[11]
JAPAN	4.0	7.2	80	4.1	7.6	85
LUXEMBG	7.6	10.4	37	3.4	7.4	118
NETHS	9.2	9.9	8	2.7	3.6	41
SPAIN	2.1	7.1	238	1.3	3.0	131
SWEDEN	17.3	21.4	24	2.2	2.8	27
SWITZ	6.5	11.1	86	1.5	2.3	53
UK	9.1	9.9	9	2.2	4.5	104
USA	7.9	10.3	30	4.1	2.5	[39]
OECD	7.2	11.9	38	3.0	2.8	[7]
EEC	6.1	11.3	185	2.0	3.0	50

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]. 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 [J.Hamill and P.Castledine, "Foreign Acquisitions in the UK: Impact and Policy", 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. **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 " [D. Nicholson-Lord, "Our World in Their Hands", 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] workers 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-looking 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 ".*

DISPLACEMENT OF EU INDUSTRY

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 Yamazaki'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]. Yamazaki's 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" [S.Young and N.Hood, "Transnational Corporations and Policy Dilemmas", in 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.***

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.

The earliest UK Japanese transplant, Nissan, *still* imports all its high value added components like engines and drive-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 ?

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 important 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.***

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. **"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"** [C.Lorenz, "Nationality Should Still Count", Financial Times 11/2/94]

BUILDING UP AN INFRASTRUCTURE ? REGENERATION ?

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]. 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, Mercury 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 ".*

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 not to sign the Social Charter has left Britain's workers with the lowest legal rights in Europe regarding employment. The average UK family man works 53 hours a week. 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 EU Trade Commissioner Leon Brittan [an ex-lawyer and politician]. "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]

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 " .... "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 benefits. 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]*

NESTLE - A CASE STUDY IN TAX AVOIDANCE

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, Polo, KitKat, Fruit Pastilles, Toffee Crisp, Drifter, Fruit Gums, Polo Mints, 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 ".

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.*** *" 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 " [Neil Kinnock, "Beyond Free Trade to Fair Trade", 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, quoted in Dicken, ibid].* 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, ibid]. 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, ibid]. 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 its relatively poor inductrial and trade performance in manufacturing has been directly attributed to its high level of FDI [Britton and Gilmour, "The Weakest Link"]. 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. **With regard to the UK, "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, this type of 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 "] However, *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 [ibid] 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 automotive component makers [IBM and London Business School 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 [W.W.Lewis and M.Harris, "Why Globalisation Must Prevail", 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.