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French Multinationals
By Julien Savary
New York: St. Martin's Press for
Institute for Research and Information on Multinationals, 1984

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Most students of the MNE would readily agree that a better knowledge of non-U.S. multinationals would considerably enrich our understanding of the phenomenon. The French case could be particularly interesting in showing how the divergent forms taken by this institution reflect differences in their environment. Here is a country which, according to John Dunning's figures, had the world's third largest stock of FDI in 1914. By 1978, however, its foreign stake was about half of that of Switzerland. It was therefore with great interest that I started this book.

French Multinationals is a translation of *Les Multinationales Francaises* published in 1981, with an additional postscript relating the evolution of French inward and outward foreign direct investment (FDI) since 1981. On the basis of a random sample of 413 companies quoted on French stock exchanges, the author has attempted to analyze the causes and the economic consequences of French outward foreign direct investment. The book's organization is that followed by traditional industrial organization studies: Part I analyzes the structural characteristics that give rise to multinational enterprises (MNEs); Part 2 describes the strategies followed by French MNEs; Part 3 evaluates their economic consequences.

In the first chapter, Savary uncovers a positive relationship between the size of French concerns and the extent of their international investment and concludes that French firms tend to invest abroad when faced with limits on their growth in the home market. The main negative factors affecting

French FDI is the presence of inward FDI in that sector. The following chapters present a typology of the strategies followed by French MNEs: a market strategy (serving the local market), a production strategy (sourcing overseas to reexport to France), and a supply strategy (acquiring inputs through vertical backward integration).

Part 3 examines the performance of French MNEs. Measured at the parent company level, MNEs are more profitable than non-MNEs. It is not clear from the data whether outward FDI increases or decreases exports, but the author believes that the development of French MNEs will have a less and less favorable effect in the future. His data also show that MNEs have increased employment faster abroad than at home. A supplement chronicles recent developments since the accession of the Socialists to government in May 1981 and shows that the trend towards greater inflows and outflows of FDI has continued as strongly as ever.

Unfortunately, the author's extensive data collection effort would have been better utilized had he benefitted from the thoughts and mistakes of some of his English-speaking predecessors. Savary seems to have missed a number of key studies on the effect of MNEs on employment and the balance of payments, such as, for example, Hufbauer and Adler in the U.S. case (*Overseas Manufacturing Investment and the Balance of Payments,* 1968) or Swedenborg (*The Multinational Operations of Swedish Firms,* 1979). The author has also overlooked some recent advances in the theory of the MNE. There are, for example, no references to the internalization literature.

This neglect of recent theoretical advances is reflected both in the choice of topics covered and in the methodology used. The discussion of the balance of payments and employment effects of French MNEs is a case in point. Savary argues that the 'pure production strategy,' which he defines as sourcing abroad to reexport to France, always has a negative effect on French employment. He also assumes that manufacturing abroad for the local market always displaces exports, and thus lowers employment at home (p. 132). Those are crucial assumptions, and I would have liked to have seen them discussed in greater depth.

Savary's discussion of this section is limited by insufficient data and rudimentary methodology. In the final analysis, the impact of MNEs on trade and employment depends on whether MNE production abroad replaces home exports, or whether it substitutes for products that would otherwise have been manufactured by foreign domestic firms. As Franklin Root has lucidly argued (*International Trade and Investment, 5th Ed.*), it is difficult to conclusively demonstrate which of those two statements is true. Savary would have profited from reading Swedenborg's sophisticated treatment of this issue.

Similarly no conclusion on relative profitability can be drawn from the author's comparison of the profits earned by the parent operations of French multinationals with those of purely French firms, since the allocation of profits between parents and subsidiaries is in itself arbitrary, and thus likely to be determined by political or tax considerations.

Savary's theory of multinationalization is also less than satisfactory. The relationship he has found between a firm's size and its foreign activities is the result of a complex series of factors: we know that firms first exploit their domestic market before venturing abroad. But casual evidence suggests that the propensity to sell overseas once the domestic market is saturated varies between firms and between countries. And there is solid evidence that there are systematic variations across sectors and countries in a firm's mode of entry into foreign markets, some relying mainly on exports, others on licensing, and a third group on FDI. An investigation into the determinants of those propensities in the French case would have made for fascinating research.

A more sophisticated theoretical framework would have prompted the author to ask different questions than those addressed in the book. In the light of internalization theories, the welfare impact of MNEs depends on the substitutability between FDI, licensing, and exports. If a firm can appropriate the returns on its research and development as effectively via licensing as through FDI, then the low propensity of French firms to invest abroad should be of no concern. If the converse is true, then the establishment of foreign subsidiaries is a necessary condition for the development of a French research and development capability. Thus the crucial research question is whether the small French FDI stake is attributable to the kinds of advantages possessed by French firms, advantages which perhaps can be more efficiently embedded into exportable goods or licensed than in the case of U.S. firms, or whether it is due to a lower propensity to exploit these advantages through FDI. The type of firm-specific advantages that French firms bring to the marketplace and the modes chosen to exploit them are then crucial variables that must be analyzed in depth.

The most satisfying part of the book is the supplement, where the complex structural changes that have taken place in France since 1981 between the public and private sectors and within the public sector are clearly described. A series of useful tables summarize recent foreign investments in France and those made by French firms overseas. This information will be very valuable to the researcher interested in the recent dramatic changes in France's industrial structure.

The Future of the Automobile
By Daniel Roos *et al.*
Cambridge, Mass.: The MIT Press

Reviewed by Neil Hood
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This book is the report of MIT's International Automobile Program which was directed by Daniel Roos and Alvin Altshuler. The four-year long