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(9426)

Documento de trabajo
9426

**FACTORS IN THE SITING AND
COMMERCIAL BEHAVIOUR OF
MULTINATIONAL COMPANIES IN
SPAIN**

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1. INTRODUCTION

The extent of the process of internationalisation and the important role that multinational companies have played in it have awakened a growing analytical interest regarding the behaviour of this type of agent. This has given rise to the creation of several hypotheses - largely complementing each other- which, though not constituting a complete theory, enable empirical analysis to focus on those internal and external elements which impinge on their decisions on foreign investment, and, stemming from this, on the makeup of the activities of their subsidiaries in the countries where they are located.

It is not our aim in this work to have an abstract discussion on the theory of internationalisation¹, but rather to present the results we have obtained from our research - inspired by it- on the type of strategies followed by subsidiaries of German and Dutch multinationals located in Spain. Though our work covers production, commercial, technological and the use of human capital aspects of these strategies, in this chapter we refer to the factors determining the locating of these firms in Spain. Furthermore, given the importance which along with these factors, is acquired by their relationship with domestic and outside markets, we also analyse their commercial behaviour.

The chapter has been divided into three parts. The first part refers to the evolution of direct foreign investment in Spain and, particularly, that from Germany and Holland. The purpose of this is to show the importance of capital from these two countries among the total investment flow into the Spanish economy.

In the second part, we present the empirical evidence that has been gathered regarding the factors giving rise to investments from the aforementioned multinationals, looking at it from a double standpoint. On the one hand, that of the specific advantages in the technological and commercial fields, which provide them with a valuable capacity in the international context and, more specifically, in the Spanish market. On the other hand, that of elements regarding this market which constitute factors attracting this type of investment.

Thus, the analysis is to be found within the standpoints adopted by the most recent literature on internationalisation processes, and a set of factors is adopted similar to that used in other works on the subject (BROOKE and BUCKLEY, 1988; CORADO SIMOES, 1992), which enables the case of Spain to be compared to that of other countries.

¹ See for this the text by J. A. ALONSO included in this volume.

And in the final part, a study is made of the commercial strategy employed by the subsidiaries which we are going to analyse. There are two points which our argument hinges around: the first refers to how intensively there is an orientation towards the domestic market and the competitive position they occupy therein; and the second centres on the characteristics of their activity in international markets, evaluating the relative importance and the geographical location of their foreign trade relations, as well as how these take shape in the interchanges developed within the multinational group.

As we have pointed out, the empirical analysis on which this work is based uses as a reference firms controlled by Dutch and German capital who are located in Spain. The fact that the subsidiaries studied come from two countries- justified insofar as these two capital inflows are important within the whole area of foreign investment in Spain, - enables us to highlight the similarities and differences in the behaviour of multinational firms of different origins.

The methodology used to obtain the information required in the work has two foundations, on the one hand, the collection of existing data from Spanish, Dutch and German sources on the companies we are interested in, and, on the other, the carrying out of a survey among them on the different subjects that we were researching.

The first of these procedures has enabled us to discover the existing flows and stock of German and Dutch investments in Spain, and also to establish the payroll of the 734 subsidiaries of multinationals from the former and the one hundred from the latter which are based in Spain². Furthermore, through the use of published sources we have obtained individualised data of variables such as the sector of activity, sales, employment, exports, leading position in the local market, and technological activities, with regard to these companies.

Furthermore, the survey has provided plentiful information- especially of a qualitative nature, on factors leading to investment and the shape of the strategies adopted by subsidiaries that we have researched. The survey was sent to all firms with Dutch capital but, on the other hand, only to

² The information on foreign firms in the hands of Spanish government organisations is not available to researchers, since it is considered classified material. This has forced us to build up the census of the population studied from different trade directories- such as the ones published by Fomento de la Producción or Alimarket-, and from the lists of companies based in Spain, as prepared by the Chamber of Commerce of each investing country. This procedure ensures a very wide coverage of the whole sector of firms being studied, since the above-mentioned directories only exclude those very small firms whose economic significance is, in any case, slight.

industrial firms with German capital³, which obliged us to bear this situation in mind when comparing the results of both groups. The number of valid questionnaires obtained was 23 for the former and 113 for the latter, which represents a percentage of answers of 23 and 38.5, respectively. Firms in the sample have a 23.1 per 100 share, in the Dutch case, in employment and 36.5 per 100 of total sales of the whole group of Dutch multinational subsidiaries established in Spain. These percentages rise to 65.2 and 68.1 for employment and sales of the manufacturing subsidiaries of German origin. All of this enables us to consider that the data obtained from the cases analysed are sufficiently significant.

1. FOREIGN INVESTMENT IN SPAIN: THE ROLE OF GERMAN AND DUTCH CAPITAL

Foreign investment ever since in 1959, with the Plan de Estabilizacion, a steady opening up to foreign markets began, has been considered as one of the decisive elements of Spanish economic development⁴. Throughout the sixties and up to 1973, there was a noticeable increase in the inflow of foreign capital, with a growth of about 12 per cent a year in real terms⁵. The 70's crisis, plus the existing climate of political uncertainty till, finally, the country clearly opted for setting up a democratic system, had a negative influence on this capital inflow⁶. From this latter year onwards, and until the mid-eighties, the growth path picked up at a rather higher speed than the previously mentioned one- an annual 14 per 100- till, as a result of Spain joining the European Community, direct foreign investment rose to an unprecedentedly high figure of an annual 38 per 100⁷. The argument that the entry of a new member in an enlarged economic space means an extra attraction for a foreign investor (DUNNING and CANTWELL 1987), is thus clearly supported by the Spanish experience.

³ It must be borne in mind that German investment in Spain is largely concentrated in manufacturing sectors, even though in recent years a clear progression is noticeable in the greater amount of investment going into services.

⁴ The presence of foreign capital in the Spanish economy is not a recent phenomenon. Its importance in the early stages of the industrialisation process in Spain, as well as its continuing major role over time has been amply highlighted in several works (MUÑOZ, ROLDAN y SERRANO, 1978; BUESA y MOLERO, 1988; IRANZO, 1991; MARTINEZ SERRANO y MYRO, 1992)

⁵ Valued at constant 1980 prices, direct foreign investment rose from 27,500 million pesetas in 1964 to 76,600 in 1973.

⁶ The total volume of direct foreign investment in 1976, valued at 1980 prices, was 29,500 million pesetas, that is, a figure almost matching that for 1964.

⁷ In 1990, also valued at 1980 prices, direct investment reached its historic peak of 481,100 million pesetas.

This notable evolution of foreign investment, particularly in recent years, has meant an important change in the influence exercised by multinational companies on the Spanish economy. As an expression of this change we have the marked increase in these companies' share of the country's industrial production⁸, and which coincided with a broad restructuring of their international activities (YANNOPOULOS, 1992; CANTWELL, 1992.)

Thus, it is in the context we have just described that we must place the evolution of direct Dutch and German investment. As far as Holland is concerned, the data in Table 1⁹ enable the growing importance which this country has acquired as a source of investment in Spain to be seen. In fact, while in the second half of the seventies it had a share of about 6 per 100 of the total foreign capital invested in the Spanish economy, - or 16 per cent if all the European Union countries are taken as reference-, a decade later, that percentage had tripled, to more than 17 per 100 in the second half of the eighties- or 30 per 100 with regard to the whole community area-. Expressed another way, Holland has become the main European investor in Spain.

TABLE 1

Now, it should be mentioned that the Low Countries in recent years have taken on an important role as intermediaries in international investment processes, so the figures in Table 1 overvalue the real incidence of capital in Spain originating from that country. In order to discover the real figures of this situation use has been made of the information offered by the Nederlandsche Bank regarding the net flow of investment in Spain, in which intermediary operations carried out by ad hoc companies established in Holland are excluded. The corresponding data¹⁰ clearly show that, throughout the eighties, direct Dutch investment was 5.5 per 100 of the whole of foreign investment in the Spanish economy. This means that - not counting the effect of intermediaries - Holland has not changed its role in providing capital for Spain; a role which, moreover, as a result of its

⁸ The most reliable estimates show that, in 1981 firms controlled by foreign capital achieved 11 per cent of Spanish industrial production. This share rose to 36.5 per 100 in 1990. See in this respect, MARTINEZ SERRANO y MYRO (1992).

⁹ It is worth pointing out that the fact that the data in this table do not coincide with those mentioned in previous notes is due to the latter referring to net investments recorded in the Balance of Payments, whilst the former correspond to gross investment operations authorised or verified by the Spanish authorities which may take place over a period of several years.

¹⁰ These data in their evolution over time show close parallels with those provided by Spanish sources. Thus, the linear correlation ratio between the corresponding series (0.9121) is significant with a reliability level of 99.95 per 100. Nonetheless, the values of these series show a marked difference in themselves.

size, can be considered as important.

As far as German investment is concerned, according to the data shown in Table 1, it can be shown that its share of the whole of foreign capital invested in Spanish firms is more than 8 per 100 in the period under consideration. This percentage has dropped between the periods prior and subsequent to Spain's entry into the European Community; but this does not prevent it being said that these investments have been very stable during that period- and even since the sixties¹¹ -, and this indicates very well-established relationships between the latter's multinationals and their Spanish subsidiaries, as seen in the strategic nature given by the former to their presence in the Spanish market.

Furthermore, it can be pointed out that, at the end of the eighties, the value of German capital stock invested in Spanish firms was 14.3 per 100 of the figure for accrued foreign net investment in Spain since the sixties; and that, in the case of Holland, this percentage rose to 4.9 per 100¹². In short, it can be seen that the two countries selected for this study have an outstanding role as investors in the Spanish economy.

2. FACTORS IN SITING MULTINATIONAL COMPANIES IN SPAIN

The motives leading to direct investment abroad make up an important qualitative element of analysis which leads to a greater insight into the strategies of multinationals. Specialist literature has frequently dealt with this topic¹³, and has drawn up two groups of determining factors in this investment. They are, on the one hand, the existence of specific assets in these firms which provide them with a competitive advantage in the

¹¹ During the period 1962-1988 German investment in comparison with total foreign investment in the Spanish economy was 12.15 per 100 (valued in real terms). The high volume of direct foreign investment flowing into the Spanish economy during 1989 and 1990 meant a lesser significance for German capital as a whole, despite the latter showing no decline.

¹² According to the Statistisches Jahrbuch, German capital stock in Spain rose in 1989 to 10,502 million DMs, equivalent to 734.9 thousand million pesetas. Also, the Nederlandsche Bank (Afdeling Betalingsbalansen) valued Dutch capital stock in Spain for the same year at 4,497 million guilders - which is the equivalent of 253.7 thousand million pesetas-. Accrued direct net foreign investment in Spain, from 1964 to 1989, valued at 1980 prices, was 5,139.3 million pesetas.

¹³ A synthesis of literature dealing with this point can be consulted in, among others, BUCKLEY (1991a). Also in HOOD and YOUNG (1990) emphasis is given to the role played by the different factors giving rise to direct foreign investment, from a theoretical viewpoint.

international field; and, on the other, aspects of the internal makeup of the countries where the subsidiaries are to be set up, operating as magnet factors for the corresponding investment.

The empirical analysis of the factors to be found in the first of these preceding types is not an easy task, due to there being insufficient information of the type required. Nevertheless, it is possible to make a tentative approach to this topic by checking for coincidence between the sectors attracting direct investment and the branches of production in which the countries providing the investment have acquired advantages in the commercial and technological fields.

Within the Spanish economy the sectoral distribution of Dutch and German direct investment- according to information provided from available sources¹⁴- is as shown in Table 2. Although the breakdown of the data is made in a different way in each case and, particularly for the Dutch one, a serious discrepancy can be seen between them¹⁵ a common pattern can be seen between them regarding the relative importance, within industry or services, of the different sectors looked at.

TABLE 2

Dutch capital, although geared more towards the service sectors, has an important presence in industry, especially in chemicals, electric and electronic machinery and material and food. Furthermore, German investment is more centred in the industrial sectors, mainly in the chemical industries and in the construction of mechanical, electrical and electronic material and the car industry, although in recent years there has been gradual growth in investment in some service sectors. This trend in the sectoral destination of German investment in Spain coincides with that of German foreign investments as a whole. (DUNNING and CANTWELL, 1987).

Moreover, the profile of the technological and commercial advantages of the two investing countries considered is as shown in Table 3. In preparing it we have taken into account available studies of the technological advantages of Germany and Holland,

¹⁴ The first part of the table records Spanish data on authorised or verified investment flows since 1984. This time limitation is due to the fact that the Ministerio de Economía has only published this type of information with a country-by-country breakdown regularly since that year. In the second part of the table figures for capital stock invested in Spain are provided, according to official German and Dutch estimates.

¹⁵ As has been stated previously, the role assumed by Holland as an intermediary in international investment processes has a marked effect on data from Spanish sources. CARRASCOSA (1991) from an analysis of verified Dutch investments in 1988 has calculated 80 per 100 of them are from firms in other countries. His findings make it possible to confirm that, as a result, official Spanish figures overvalue real Dutch investment, especially in the financial sector.

both on the international¹⁶ plane and with regard to the Spanish domestic market¹⁷ and in turn their commercial advantages have been analysed, by taking into consideration their specialisation in exports with regard to OECD countries as a whole, as well as the commercial specialisation of their main multinationals¹⁸. All of this serves as an approach to discovering the specific factors of investing country firms which favour their move abroad.

TABLE 3

Thus, in the above table it can be seen that Holland bases its technological and commercial strengths on the industries of oil, end user chemistry, office, electric and electronic machinery, and food. And, in the case of Germany, the advantages are diversified to a greater extent, being located in the sectors of chemicals, mechanical and electrical machinery and equipment, the car industry, other transport material, textiles, rubber and plastics.

These profiles, discounting inevitable differences in breakdown, show a fairly general parallel with those for sectoral distribution of Dutch and German investment in Spain. This means that these countries' specific advantages in industries and companies¹⁹ are among the factors spurring investment in Spain, thus verifying- even if on a still rudimentary plane- one of the elements which has been stressed in the theoretical and empirical literature on the internationalisation of production ²⁰.

¹⁶ The analysis of the technological advantages was carried out with information on patents registered in the United States, bearing in mind the findings of works by SOETE and WYATT (1983) and PATEL and PAVITT (1991a).

¹⁷ The analysis has been carried out from information on patents awarded by the Spanish Patent Office, using the findings of BUESA (1992).

¹⁸ It must be observed that the breakdowns used in the studies which have served as a basis for the preparation of Table 3, differ from each other. Consequently, we have opted for a qualitative presentation of the findings which must be taken as a simple approximation.

¹⁹ It must be underlined that our findings coincide very closely with those obtained for German and Dutch firms by PATEL and PAVITT (1991) in their analysis of sectoral distribution of the world's main 660 multinationals.

²⁰ The recognition of the existence of specific competitive advantages for the firm- the nature of which may be productive, technological, financial, commercial or political - as one of the important factors in explaining international investment, stems from the works of HYMER (1960) and VERNON (1966), as systemized by authors such as CAVES (1974) or LALL and STREETEN (1977), and incorporated into a broader view- which takes into account the internationalisation of transactions and the theory of the

The existence of that type of company advantage is not enough to offer a complete explanation of the reasons for its international expansion. As has been mentioned above, the advantages of siting offered by the investment-receiving countries must also be taken into account. In the various works which, both from the theoretical and empirical standpoint, have dealt with this subject (BROOKE and BUCKLEY, 1988, HOOD and YOUNG, 1990; BUCKLEY 1990), different types of factors impinging on siting decisions of multinational subsidiaries have been indicated. Among them, synthetically, the following can be mentioned:

- i) Those relating to the shape of the local market (size, growth potential).
- ii) Those referring to availability and cost of factors of production labour, inputs).
- iii) The possibilities offered by the host country in vertical integration processes.
- iv) Sociopolitical factors (political stability, cultural proximity).

In our case, through the survey carried out among the subsidiaries of Dutch and German multinationals, exploration has been made of the role played by some of these factors in foreign investment processes. This is completed with an analysis of the different ways in which these companies enter the Spanish economy. In Tables 4a and 4b the information recorded in this respect is shown.

TABLES 4a & 4b

As far as the first of these subjects is concerned, the results for the whole of the subsidiaries interviewed show that the most attractive element for investors is the size and characteristics of the domestic market²¹, with aspects relating to the costs of factors of production and those of an institutional nature taking second place. This profile is similar to the one obtained from other recent studies which consider countries with a relatively broad market size²² (PAPANASTASSIOU

advantages of siting- by authors such as BUCKLEY and CASSON (1976), DUNNING (1977 and 1988) and CANTWELL (1990).

²¹ Bear in mind that Spain, by size, is fifth among European Union countries. Its GDP, valued at 573.7 thousand million dollars in 1992, represents 8.4 per 100 of the whole of these countries; and its population- 38.9 million inhabitants- 11.9 per 100.

²² Nevertheless, in these studies the growing importance is shown of accessibility to foreign markets as an important factor in siting. In our case we have noticed this trend in the interviews we have had with directors of some of the subsidiaries analysed.

and PEARCE, 1993; TAGGART, 1993), but different from what is seen in Portugal, where the most important siting factors are labour costs and access to raw materials. (CORADO SIMOES, 1992).

Nevertheless, the most noticeable trait shown in our results is the strong contrast existing between Dutch and German subsidiaries. Thus, among the former, cost and institutional factors and access to foreign markets are the central elements, while the local market conditions are given low importance. On the contrary, the profile of factors attracting German investors is the opposite, so that, for them, the makeup of the Spanish market is seen to be essential and far above any other cost or institutional consideration.

It is interesting to notice in this respect that German firms show a similar pattern to the one reflected in ROBINSON and BARBER's study on the subsidiaries of American multinationals operating in Spain at the end of the sixties. Furthermore, this pattern is compatible with the results of breakdown studies which have dealt with the question, where emphasis is laid on the crucial role of the size of the domestic market and, in a more secondary fashion, of certain elements of macroeconomic stability, and one can see the slight influence exercised by costs of the labour factor on investment flows (BAJO, 1991; MARTINEZ SERRANO and MYRO, 1992). Obviously, this compatibility does not exist in the case of Dutch subsidiaries.

All this indicates that, in short, for the same country receiving inward investment, siting factors can play a different role according to the characteristics, experience and culture of the investing companies. With the information we have we cannot go more deeply into this subject; but it can be noted that the presence of German multinationals in Spain has a long tradition which is not the case with the Dutch- and that between the two of them there are differences regarding the shape of their commercial strategies, as will be shown later.

The existence of different patterns in the siting factors influencing the investment decisions of German and Dutch multinationals is not reflected in the forms that their entry in Spain adopts. These, as is seen in Table 4, are not significantly different from between both groups of firms and, in turn, are similar to those seen in the case of American subsidiaries at the end of the sixties²³. That supports the idea that, in the choice between starting up a new company or taking over another existing one, there do not seem to be any general rules of conduct, so that each case corresponds to the particular nature of the aims sought by the investors and the particular conditions of the host country (BROOKE and BUCKLEY, 1988).

3. COMMERCIAL STRATEGIES OF SUBSIDIARIES LOCATED IN SPAIN.

Complete understanding of the internationalisation process

²³ The χ^2 test applied on our data and those provided by ROBINSON and BARBER (1971) give as a result a value not significantly different to zero.

requires going beyond internal and external factors for multinational companies which influence their decisions, and making a more profound examination of the strategies employed in countries where their subsidiaries are located. Thus, in this section, we refer to the commercial aspects of those strategies, since, on the basis of them, the role played by these factors can be better understood. Consequently, we attempt to study the commercial behaviour of the subsidiaries, both in the Spanish domestic market and in foreign ones.

Our starting point is the consideration of the commercial orientation of Dutch and German subsidiaries towards both markets. In this respect, the first item of data to be taken into consideration is that, taking as a reference point all these subsidiaries, more than 96 per 100 of Dutch sales are made in Spain, while that percentage falls to 80 per 100 in the case of the Germans. Correlatively, exports represent only 4 per 100 of sales in the former case and 20 per 100 in the latter²⁴. There is, therefore, a noticeable difference between both groups of firms, which is also reflected in the results of our survey summarised in Table 5.

TABLE 5

It is true that this differentiation does not prevent the majority of the subsidiaries analysed here gearing their commercial activity towards the local market- more intensively in the Dutch case- and exports are subordinate. This statement is similar to what has been obtained in other studies where it has been concluded that the commercial strategies of European multinationals, through direct investment abroad, is particularly focused on supplying local markets²⁵. And the same occurs in the case of American subsidiaries located in Spain²⁶.

In this context, it is of great interest to discover what position is held by the firms analysed within the Spanish market. Their replies to our survey- which are recorded in Table 6- show that around 90% of them claim to be among the top ten in their sector of activity, with the leader position being very frequent, particularly among the Germans. Though this result, due to the characteristics of the sample, may show an upward bias compared to the situation of the whole of the firms making up the group analysed, it leaves no room for doubt that a large number of the multinational subsidiaries enjoy an outstanding competitive

²⁴ See, later on, Table 7.

²⁵ See, among others, the analysis of FRANKO, (1976).

²⁶ See ROBINSON and BARBER (1971, page 36). The global exporting propensity of these firms is 10 per 100 of sales. It must be remembered that this work refers to the situation as recorded at the end of the sixties, so it is possible that, at the present time, there has been some modification in the commercial strategy of American subsidiaries

position in the domestic market²⁷.

TABLE 6

The gearing of these subsidiaries towards the local market- due to the size of the latter and the advantageous position they hold in it- does not rule out relationships with foreign markets, as has been pointed out previously. Consequently, it is now worth analysing how the latter is made up, by making a reference to exporting activities and intergroup trade.

The literature on multinationals has devoted important attention to this question on the basis of a consideration of the existence of imperfections in the markets which give rise to forms of international competition different from those described in the models based on the classical assumptions of the theory of comparative advantages. The most important aspects which have been highlighted in this respect are the following²⁸

i) Firstly, there is a difference in conduct among companies controlled by national capital and those with foreign shares, with the latter showing a greater degree of opening up to the outside.

ii) Stemming from the above, multinational groups control an important part of world interchange. And it is characteristic in these to find important commercial relationships involving only the parent company and its subsidiaries; that is, an intergroup trade representing a substantial part of their international trading activity.

iii) As a consequence, these firms' operations must give rise to important effects in the external balance of the countries where they operate. The nature of such effects is not predetermined, it depends on the aims, characteristics and type of activity of the different groups.

In this respect, the distinction established by KOJIMA (1975 and 1978) is interesting for the distinction made between companies whose subsidiaries are export-oriented, trade oriented- trying to take advantage of the comparative advantages of the country where they are located, and those following the opposite path- anti-trade oriented, whose aims centre on exploiting the advantages of the parent company within the market where its subsidiaries are situated. Between both extremes one can find intermediate cases and even transitions from one to another over

²⁷ This result is consistent with the estimates of MARTINEZ SERRANO and MYRO (1992) on the market share of firms with foreign capital share in Spanish industry. This figure in 1990 reached 36.5 per 100 of manufacturing production, but reached more than 50 per 100 in industries such as electrical and office machinery, electronics, transport material, chemicals, metal products and cork and plastic products.

²⁸ For a synthesis of the literature on this subject the work by ALONSO and DONOSO (1989), ps 149 to 155 can be consulted.

time, depending on the changes in the advantages and institutional conditions of the countries providing and receiving international investment, as well as the corresponding firms.

In the specific case of the Spanish economy, the different studies made on this matter²⁹ allow emphasis to be made, within a tight synthesis, that even though before the beginning of the sixties the companies with foreign capital showed a clear preference for the domestic market with a lesser tendency to export than companies with national capital, from the mid-sixties onwards, this behaviour showed a radical change. In all studies subsequent to this period not only a higher percentage of foreign sales by multinational subsidiaries but also a greater showing on their part in Spanish exports was observed, so that most of the latter is explained by their activity. Furthermore, there is general agreement that the import propensity of companies with foreign capital is clearly higher than those with national capital. It is likewise observed that the balance of all this leads to worse overseas trade balances, since they are more negative, for the former companies rather than the latter.

So, this is the context in which one must place the analysis of the foreign commercial activities of the subsidiaries of Dutch and German multinationals located in Spain. The basic data for exports³⁰ are shown in Table 7. With these data it can be shown that the likelihood of exporting is almost the same in both groups - 39 and 36 per 100, respectively- but a consideration of the breakdown stresses that that probability shows a noticeable difference in the different sectors. In general, among German industrial firms there is a higher proportion of exporters than among those with Dutch capital.

TABLE 7

Moreover, most of the Dutch subsidiaries operating in overseas markets show very slight exporting propensities, in clear contrast to what happens with German subsidiaries. This is reflected in the global average of sales going to the overseas market which, among the former, hardly exceeds 3 per 100, while, among the latter, it reaches more than 20 per 100. This difference is seen, to a greater or lesser extent, in all the sectors considered.

Nevertheless, though the German subsidiaries are more geared to the international market, this does not mean that their exporting propensity is outstanding in the framework of the

²⁹ See once again the synthesis of ALONSO and DONOSO (1989), pages 155 to 162.

³⁰ The primary source for these data is the Censo de Exportadores prepared by the Instituto de Comercio Exterior from Customs information. Therein is recorded all the firms with more than ten million pesetas worth of exports annually, so Table 7 can be regarded with a very small margin of error as a true reflection of exports by the whole of the subsidiaries studied in our investigation.

Spanish economy. In fact, only a third of them reached a level of overseas sales comparable to the average of Spanish exporting firms³¹, which is explained by their lateness in joining exporting processes, compared to other foreign subsidiaries³² (CASADO, 1992).

To sum up, in the light of the above-mentioned evidence, it can be stated that subsidiaries of Dutch multinationals operating in Spain show an anti-trade oriented behaviour, according to Kojima's previously-mentioned classification. This may appear contradictory with the emphasis shown on accessibility to overseas markets and their low valuation of the domestic market, when the factors determining their location are highlighted. But this contradiction is solved, at least in part, if it is borne in mind that a very important part of these firms' activity consists of marketing imported products³³. Meanwhile, the behaviour of German subsidiaries, more open to overseas markets, though below the average level of companies which are controlled in Spain by foreign capital, may be estimated to be in an intermediate category between the former and Kojima's trade oriented classification. Logically, behind these global patterns lurks a wide variety of cases falling between the two extremes, as is shown by the data in Table 7.

Another aspect of exporting where a marked contrast is reflected between German and Dutch subsidiaries is that referring to its geographical distribution, as can be seen in Table 8. In fact, the latter concentrate their foreign sales in lesser developed countries, having little relationship with those of the European Union and only a very slight one with Holland. On the contrary, German subsidiaries show the opposite profile, so that export operations are centred on the parent company country and the others from the European Union³⁴.

³¹ Though the calculation of the average exporting propensity of Spanish firms with overseas sales is not an easy task, it may be considered that a figure around 25 per 100 constitutes a good approximation if the findings of studies dealing with this subject are taken into account. See MARAVALL and RODRIGUEZ DE PABLO (1982) and ALONSO and DONOSO (1985 and 1989).

³² For example, by the end of the sixties, 36 per 100 of American multinational subsidiaries located in Spain exported an amount above 20 per 100 of their sales. In this respect see ROBINSON and BARBER (1971), page 50.

³³ From the findings of our survey we calculate that in this group of subsidiaries imports account for half their sales (BUESA and MOLERO, 1993). In the case of the Germans we have not been able to obtain the necessary information to make a similar calculation.

³⁴ Something quite similar was the case at the end of the sixties with American subsidiaries, though in this case exports to the United States were relatively small and those to Europe quite high. See ROBINSON and BARBER (1971).

TABLE 8

The last of the elements related to overseas trade which we are interested in dealing with here, is the one referring to intragroup trade. With regard to this subject, the literature on multinational companies has stressed that exchanges between parents and subsidiaries constitutes one of the essential variables in their commercial strategy, and that its importance has grown as the internationalisation process has progressed³⁵. From the empirical standpoint, studies made of the subject have highlighted the following aspects³⁶:

- i) Firstly, the incidence of intragroup trade on each country's foreign trade is greater in the case of industrialised rather than underdeveloped ones.
- ii) Secondly, there are significant differences in the use of this type of trade according to the area where the multinationals have their home.
- iii) And, finally, intragroup trade depends on the multinational maturity of the parent companies, the level of control of the subsidiaries and the degree of technological complexity of the sector where those firms are operating. Also, economic integration processes favour the growth of this type of trade (DUNNING, 1990).

In the case of the subsidiaries of Dutch and German multinationals situated in Spain, the information is available as is shown in Table 9. There it is clearly seen that intragroup trade has grown markedly throughout the second half of the eighties, and this concurs with the results of other recent studies on this topic (SAVARY, 1992; VAN DER BULCKE and LOMBARD, 1992). This, basically, is explained by the fact that several of these firms were initiated in this type of trade in the above-mentioned period; and, also, because subsidiaries who were already trading with their group further developed their relationship with it. Both reasons may stem from the opening up of the market as a consequence of Spain's entry into the European Community, which would give support to DUNNING's (1990) theory on the intensification of intragroup trade in economic integration processes.

TABLE 9

Furthermore, it must not be overlooked that among the two groups of subsidiaries we are analysing there are noticeable behaviour differences. Thus, while the Germans head towards

³⁵ See for this works by BUCKLEY (1991b), CASSON (1986) CAVES (1982) and HOOD and YOUNG (1990).

³⁶ See the synthesis made by VAN DEN BULCKE (1987) in which the aspects listed below are developed.

standardisation between intragroup rates of exports and imports, the Dutch still have a marked imbalance between both, so that this type of trade is much more important with respect to their imports than to their exports. This reflects the importance for the latter held by the marketing of imported products- as we have indicated above- as well as the different intensity and geographical orientation of the exporting activity of both groups of subsidiaries.

To sum up, though there is not a general pattern delimiting the intensity of intragroup trade, empirical evidence confirms that the strategies of subsidiaries based in Spain is oriented towards a growing commercial integration with the multinational group to which they belong. This integration is, nevertheless, unequal, being more intensive in exports for the Germans than for the Dutch, and more important in imports for the latter than the former.

In conclusion, the findings of our analysis- which are situated in the time horizon of Spain's negotiating and entering the European Community, when the Single Market project was clearly formulated- have shown up the existence of substantially different commercial strategies between the subsidiaries of Dutch and German multinationals based in the country. These results point in the same direction as the works in which the thesis is maintained that the building of the European Single Market will not produce standardisation of company strategies among European firms (BUCKLEY, PASS and PRESCOTT, 1990; PRESCOTT, 1991); and, in turn, contradict the theory that that same Single Market would lead to a reduction in the degrees of multinationality, especially with regard to horizontal integration processes (ITAKI and WATERSON, 1990/1991).

4. CONCLUSIONS

From the experience of the subsidiaries of German and Dutch multinationals developing their activities in Spain, in this work we have analysed the factors determining the direct investment decisions of these companies and the makeup of their commercial strategies. The results obtained in general fit the theoretical explanations which stress the role played by the specific advantages of investing firms and the advantages of siting for the host countries, in the internationalisation process.

But beyond this generalisation, our study clearly shows that that framework of factors gives rise to different situations between companies. Thus, between Dutch and German multinationals a clear contrast is seen with regard to their valuation of siting factors such as the size and characteristics of the market receiving the investment, the cost conditions prevailing in that market or the institutions to be found there. Our empirical evidence makes it clear that, in this contrast, the influence comes from the investing country, so it could be thought there exist elements of a national character reflected in the cultures and management styles, producing different approaches to internationalisation strategies. However, it may be that that influence is conditioned by the type of competitive advantage developed in each investing country, which becomes specific in

the nature of the economic sectors in which the activity of internationalising countries takes place. Given that these sectors differ among themselves in terms of their market structure, the form of their demand and the characteristics of their technology, the national differentiation we have discovered probably hides, at least in part, an intersectoral difference. In any case, due to analytical limitations imposed by the size of the sample we have used, our research has been unable to progress in that field.

Furthermore, we have observed that the differences in the determining factors in investment are not reflected in the ways in which foreign multinationals enter the Spanish market. This occurs, whatever the nationality of the investing firm, particularly through the creation of new firms, though there is also a significant number of takeovers of local firms.

Our analysis has also centred on the makeup of the commercial strategies of the subsidiaries of Dutch and German multinationals located in Spain. In this field we have also found important differences between the two; differences affecting the intensity of their orientation towards the local market- though the latter is always the most important and many of the subsidiaries analysed act to a certain extent as leaders,- the relative volume and geographical distribution of their exports, the size of their intragroup trade and, within this, the imbalance between import and export operations.

To sum up, our research has provided evidence that shows the existence of a noticeable heterogeneity in the strategies of multinational companies. This should be borne in mind by national governments when framing policies to attract international investment, since not all subsidiaries are interwoven in the same way in the local economy and, as a result, their effects on it, whether beneficial or harmful, are not always produced in the same way, nor do they lead to an identical result.

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TABLE 1: GERMAN AND DUTCH FOREIGN DIRECT INVESTMENT
IN SPAIN. 1975-1990.
(Billions of 1980 constant pesetas)

YEARS	A. TOTAL FDI IN SPAIN	B. FDI EUROPEAN UNION	C. DUTCH FDI	D. GERMAN FDI
1975	64.16	12.05	2.28	3.42
1976	27.14	14.91	3.18	4.43
1977	42.59	19.49	1.29	6.23
1978	78.02	29.53	2.36	11.84
1979	95.17	33.78	8.72	8.01
1980	85.42	35.68	6.75	10.01
1981	69.31	35.60	2.41	6.56
1982	143.62	49.22	12.78	14.82
1983	110.38	57.15	7.35	14.47
1984	172.94	61.44	11.75	17.19
1985	166.23	67.29	11.87	16.75
1986	225.48	114.35	17.14	57.26
1987	388.71	190.87	65.45	14.04
1988	429.47	241.02	94.94	31.01
1989	601.67	312.30	91.86	39.31
1990	830.52	570.30	175.48	54.45
1975/79	307.08	109.76	17.83	33.93
1980/84	581.67	239.09	41.04	63.05
1985/90	2642.08	1496.13	456.74	212.82
1975/90	3530.83	1844.98	515.61	309.81

Source: Own elaboration with data from the Ministry of
Economy.

TABLE 2: SECTORAL BREAKDOWN OF GERMAN AND DUTCH FDI IN SPAIN.

I. AUTHORISED INVESTMENT FLOWS (1)

SECTORS	HOLLAND		GERMANY	
	TOTAL	%	TOTAL	%
0.-AGRICULTURE	4.35	0.86	3.05	1.30
1.- Power and Water	9.74	1.92	0.17	0.07
2.- Mining and Chemistry.	36.10	7.13	21.29	9.08
3.- Metal. transformation and Machinery.	18.41	3.64	111.46	47.52
4.- Other manufacturings	82.40	16.28	27.85	11.87
TOTAL INDUSTRIES	146.66	28.97	160.78	68.55
5.-BUILDING	5.01	0.99	1.57	0.67
6.- Wholesale and Retail Trade, Tourism.	66.28	13.09	36.00	15.35
7.- Transport and Communication.	5.27	1.04	1.92	0.82
8.- Finance, Insurance and Real State.	275.70	54.47	28.88	12.31
9.- Other Services.	2.92	0.58	2.38	1.01
TOTAL SERVICES	350.17	69.18	69.18	29.49
TOTAL	506.19	100.00	234.56	100.00

II. FDI STOCK (2)

HOLLAND			GERMANY		
SECTORS	Millions of Florins	%	SECTORS	Millions of Marks	%
AGRICULTURE AND FISHING	7	0.2	Chemical industry	2114	20.1
INDUSTRIES	2075	46.1	Non-electrical Machinery	636	6.1
. Mining. Oil and Chemistry.	841	18.7	Electrical and Electronic Machinery and Material	1254	10.9
. Metallurgy and Electrical Ind.	630	14.0	Trade	136	1.3
. Food and Beverages	530	11.8	Finances	406	3.9
. Others Industries	74	1.6	Portfolio societies	1190	11.3
SERVICES	2415	53.7	Other sectors	4766	45.4
. Trade	296	6.6			
. Transport and Communication	20	0.4			
. Finance and Insurance	418	9.3			
. Other Services	1681	37.4			
TOTAL	4497	100.0	TOTAL	10502	100.0

Sources: Own elaboration with data from the Ministry of Economy (Section I), Nederlandsche Bank and Statistisches Bundesamt (Section II).

(1) Billions of 1980 constant pesetas (1984-1990)

(2) 1989 Position in national currency

TABLE 3.- TECHNOLOGICAL AND COMMERCIAL ADVANTAGES OF HOLLAND AND GERMANY

SECTORS	HOLLAND				GERMANY			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
1. Mining	-	-	+	-	-	-	-	-
2. Gas and Oil refining	+	+	+	-	+	-	-	-
3. Electric power	-	-	-	-	-	-	-	-
4. Basic metallurgy	-	-	-	-	-	-	+	-
5. Non-metallic products manufacturing	-	-	-	-	-	-	-	-
6. Chemical industry								
a. Chemicals (except consumption goods)	-	-	+	+	+	+	+	+
b. User chemistry	+	+	+	-	-	+	+	-
7. Metal products	-	-	-	+	-	-	+	+
8. Mechanical machinery and equipment	-	+	-	-	-	+	+	+
9. Office and computer machinery	+	+	+	-	-	-	-	-
10. Mechanical and electrical machinery and equipment	+	+	-	+	-	-	+	+
11. Vehicle industry	-	-	-	-	-	+	+	+
12. Shipbuilding	+	+		-	-	+		-
13. Other transport material	-	-	-*	-	+	+	-*	-
14. Food, drink and tobacco industry	+	+	+	+	-	-	-	-
15. Textiles	-	-	+	-	+	+	+	-
16. Leather industry	-	-	-	-	+	-	-	-
17. Footwear and clothing industry	-	-	-	-	-	-	-	-
18. Timber and wooden furniture industries	-	-	-	-	-	-	+	-
19. Paper, printing and publishing	-	-	-	-	+	-	-	-
20. Processing of rubber and plastics	-	-	+	-	-	+	+	-
21. Other manufacturin industries	-	-	-	+	-	-	-	+

Source: Own elaboration from OCDE (1992); BUESA (1992); PATEL & PAVITT (1991); SOETE & WYATT (1983) and DUNNING & PEARCE (1985).

(1). Technological advantages in Spain. Estimated with data from the Spanish Patent Office (1967-1986).

(2). International technological advantages. Estimated with data from the USA Patent Office (1963-1988).

(3). Commercial Specialisation with regard to the OECD countries (1986-1991).

(4). Commercial specialisation of country's MNCs with regard to the world largest MNCs.

* Including shipbuilding.

+ RELATIVE ADVANTAGE
- RELATIVE DISADVANTAGE

TABLE 4a. FACTORS DETERMINING THE INVESTMENT DECISIONS.

INVESTMENT FACTORS	DUTCH SUBSIDIARIES		GERMAN SUBSIDIARIES		TOTAL	
	NUMBER OF FIRMS *	%	NUMBER OF FIRMS *	%	NUMBER OF FIRMS *	%
* Labor force costs	20	87.0	34	30.1	54	39.7
* Tax incentives	21	91.3	12	10.6	33	24.3
* Favourable social environment	21	91.3	9	7.9	30	22.1
* Size and features of the Spanish market	3	13.0	97	85.8	100	73.5
* Favourable legal conditions	20	87.0	3	2.7	23	16.9
* Access to foreign markets	22	95.7	25	22.1	47	34.6
* Others	--	--	14	12.4	14	10.3
TOTAL FIRMS	23	100.0	113	100.0	136	100.0

Source: Own elaboration

* Number of firms which considers positively each factor.

TABLE 4b. ENTRY FORMS IN THE SPANISH MARKET.

FORMS OF ENTRY	DUTCH SUBSIDIARIES		GERMAN SUBSIDIARIES		TOTAL	
	NUMBER OF FIRMS	%	NUMBER OF FIRMS *	%	NUMBER OF FIRMS (1)	%
* Takeovers	8	34.8	53	46.9	61	44.9
* Greenfields	14	60.9	54	47.8	68	50.0
* Not available	1	4.3	2	1.8	3	2.2
TOTAL FIRMS	23	100.0	113	100.0	136	100.0

Chi-cuadrado test: 1.8682

Not significant at 95 %

Source: Own elaboration

* We have not included four firms acquired through the stock market.

TABLE 5. SALES IN THE DOMESTIC MARKET.

SALES PERCENTAGES	DUTCH SUBSIDIARIES		GERMAN SUBSIDIARIES	
	NUMER OF FIRMS	%	NUMBER OF FIRMS	%
100 %	11	47.8	16	14.2
75 - 99 %	9	39.1	52	46.0
50 - 74 %	2	8.7	24	21.2
1 - 49 %	-	-	21	18.6
Not available	1	4.3	-	-
TOTAL	23	100.0	113	100.0

Chi-cuadrado test: 17.3563

Confidence level = 99.9 %

Source: Own elaboration

TABLE 6: LEADING POSITION OF FOREIGN SUBSIDIARIES

POSITION	DUTCH SUBSIDIARIES		GERMAN SUBSIDIARIES	
	NUMBER OF FIRMS	%	NUMBER OF FIRMS	%
First firm of the sector	2	8.7	34	30.1
Among the five firsts	14	60.9	56	49.6
Among the ten firsts	4	17.4	9	8.0
Other positions	2	8.7	12	10.6
Not available	1	4.3	2	1.8
TOTAL	23	100.0	113	100.0

Source: Own elaboration.

TABLE 7: EXPORT ACTIVITY OF DUTCH AND GERMAN SUBSIDIARIES

I. DUTCH SUBSIDIARIES									
SECTORS	[1] N° OF FIRMS	[2] EXPORTING FIRMS	[2]/[1] %	FIRM'S DISTRIBUTION ACCORDING TO THEIR PROPENSITY TO EXPORT (Sales percentage)				[3] EXPORTATION IN 1987 (Mill. Pts)	[3] As % of sales
				Up to 10 %	from 10 to 20%	More th 20 %	n.a		
INDUSTRY	64	31	48.4	3	21	2	5	17,719	3.88
- Chemistry	22	9	40.9	1	6	1	1	6,599	5.32
- Metalmechanical, Electrical and transport material	22	13	59.1	-	10	1	2	7,800	3.70
-Other industries	20	9	45.0	2	5	-	2	3,320	2.72
SERVICES	27	3	11.1	-	2	-	1	183	0.12
OTHER SECTORS	9	5	55.6	2	2	-	1	1,001	8.07
TOTAL.....	100	39	39.0	5	25	2	7	18,903	3.04
II. GERMAN SUBSIDIARIES									
SECTORS	[1] N° OF FIRMS	[2] EXPORTING FIRMS	[2]/[1] %	FIRM'S DISTRIBUTION ACCORDING TO THEIR PROPENSITY TO EXPORT (Sales percentage)				[3] EXPORTATION IN 1987 (Mill. Pts)	[3] As % of sales
				Up to 10 %	from 10 to 20%	More th 20 %	n.a		
INDUSTRY	327	199	60.9	5	82	36	76	444,966	24.53
- Chemistry	80	51	63.8	3	29	8	11	34,910	8.34
- Metalmechanical, Electrical and transport material	153	99	64.7	2	33	21	43	391,944	33.53
-Other industries	94	49	52.1	-	20	7	22	18,112	7.99
SERVICES	202	31	15.3	1	18	5	7	3,940	1.17
OTHER SECTORS	8	5	62.5	2	-	1	2	1,064	21.85
NOT AVAILABLE	197	27	13.7	26	-	-	1	5,286	6.17
TOTAL.....	734	262	35.7	34	100	42	86	455,256	20.32

Source: Own elaboration

TABLE 8: EXPORTS' GEOGRAPHICAL DISTRIBUTION (in % of exporting firms)

GEOGRAPHICAL DESTINATION	DUTCH SUBSIDIARIES	GERMAN SUBSIDIARIES
MOTHER HOUSE COUNTRY	10.1	27.8
EUROPEAN UNION *	24.9	44.7
OTHER DEVELOPED COUNTRIES	1.9	2.3
DEVELOPING COUNTRIES	63.1	25.2
TOTAL	100.0	100.0

Source: Own elaboration

* Except mother house country

TABLE 9: INTRAFIRM TRADE OF DUTCH AND GERMAN SUBSIDIARIES

I. EXPORTS TO OTHER FIRMS OF THE GROUP (% of the Firms)				
% OF TOTAL EXPORTS	DUTCH SUBSIDIARIES		GERMAN SUBSIDIARIES	
	1985	1990	1985	1988
0 %	73.9	47.8	14.2	13.3
1 - 49 %	13.0	34.8	27.4	36.3
50 - 100 %	13.0	17.3	23.8	32.7
Not available			34.5	17.7
TOTAL	100.0	100.0	100.0	100.0
Average intragroup trade (in % of exports)				
	14.1	21.2	24.6	33.2
II. IMPORTS FROM OTHER FIRMS OF THE GROUP (% of the Firms)				
% OF TOTAL IMPORTS	DUTCH SUBSIDIARIES		GERMAN SUBSIDIARIES	
	1985	1990	1985	1988
0 %	39.1	26.1	11.5	10.6
1 - 49 %	30.4	34.8	33.6	32.7
50 - 100 %	30.4	39.1	29.2	34.5
Not available			25.7	22.2
TOTAL	100.0	100.0	100.0	100.0
Average intragroup trade (in % of imports)				
	34.6	42.7	30.1	33.7

Source: Own elaboration