PATTERNS OF FOREIGN DIRECT INVESTMENT IN THE PULP AND PAPER INDUSTRY

by

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Patterns Of Foreign Direct Investment In The Pulp And Paper Industry

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Abstract

The pulp and paper industry has become global in scope in recent decades. One expression of this globalization is the existence of multinational pulp and paper corporations. The firms, mainly based in advanced industrialized countries, have expanded their operations in developing as well as developed countries through the pursuit of horizontal and vertical integration strategies to utilize raw materials, gain access to markets and respond to a wide variety of competitive pressures. For the past several decades and during the turbulent years of global crisis, these corporations have continued their international operations in both developed and developing countries.

This thesis is an attempt to study systematically the spatial pattern of foreign direct investment in the pulp and paper industry by U.S. based firms. The main objective of the thesis is to gain a better understanding of the dynamics of foreign direct investment, particularly with respect to methods and strategies of entry and post entry behaviour.

The study draws information on the international operations of the selected firms from secondary sources, specifically annual reports, various trade journals, statistical directories and other published and unpublished documents on pulp and paper. As for theoretical explanation, this thesis reviews various theoretical developments in the industrial organization and industrial geography literatures and gives particular emphasis to the concepts of barriers to entry and to the obsolescing bargain. Empirically, the study reveals differences in the entry characteristics of American firms investing in foreign countries over time and by regions.

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Dedication

to Shukla

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CHAPTER I

Scope of the Study

One of the most important phenomena in today's world economy is the multinational corporation (MNC) whose emergence has represented a growing internationalization of production together with increased concentration of ownership. These processes have been closely linked to fundamental changes in production, distribution and communication which have significantly enhanced the possibilities for relocation of manufacturing, research, marketing and management functions on a global scale for the last several decades. Indeed, MNCs are now widespread in many economic sectors including service oriented activities as well manufacturing and resource oriented activities.

The growth of MNCs has been neither a smooth nor a continuous process, however. Over the past two decades, the global economy has experienced a variety of economic problems rooted in stagnation, recession, exchange rate fluctuations and energy crises. In turn, these have encouraged MNCs to restructure their operations in a variety of ways, in some instances by dis-investment of selected foreign operations. At the same time, the activities of multinationals have become a matter of controversy and government policies towards them have varied and changed. Thus, there is a continuing need to monitor and assess MNCs. In this regard, one appropriate research strategy is to examine the behavior of individual MNCs over long periods of time. This thesis proposes to make a contribution to such a research strategy by an examination of direct foreign investment (and dis-investment) by selected American MNCs in the pulp and paper industry.

The International Expansion of Firms : An Overview

The location and relocation of manufacturing and other activities by multinational corporations across the global economic landscape has, in general, occurred for these corporations to remain competitive. The reasons are varied (Bradbury, 1985; Browett, 1985). For example, productive capital is said to have been transferred within MNCs from advanced capitalist countries to developing countries in response to tightening labor markets and a fall in the rate of profit in the former and a response to available and cheaper labor in the latter (Browett and Leaver, 1989). Yet, much foreign direct investment (FDI) remains concentrated among the developed countries and these flows reflect other factors. Thus firms have expanded internationally among industrialized countries to gain access to additional markets, to react to or preempt rivals from gaining market access advantages and to help recoup the fixed costs of research and development. To some extent, these motivations also underlie FDI in developing countries. In addition, firms have expanded internationally to gain access to resources and search for cheaper labor.

Following World War II, industrialization, which at one time was confined almost exclusively to Western Europe and North America, spread to include Japan, the centrally planned economies and a host of developing countries, and created in its wake new and more complex patterns of competition and trade. The emergence and growth of multinational corporations to their present dominant position in the world economy was both an integral part of this process as well as an integral part of its consequences.

The immediate post war growth and expansion of the multinational corporation was predominantly by U.S. based firms (Leontiades, 1985). Since then, participation in foreign direct investment has become far more widely dispersed among a number of donor countries. In particular, beginning in the 1960s, a number of European and Japanese firms have led the growth rate in foreign direct investment. As Taylor and Thrift (1982, p.2) observe:

> "the acceleration in the movement of capital has coincided with a period in which the degree of control of the world economy exercised by United States-based multi-nationals has decreased. United States-based multinationals must now share the stage with those from, at least Europe and Japan".

It might also be noted that some firms based in developing countries have begun to set up international operations. Most of these corporations are comparatively small in size and are based in south and east Asian countries, notably India, South Korea and Hong Kong (UNTC, 1985). These corporations are mostly active in manufacturing in other developing countries and, as compared to corporations from more developed countries (MDC), are found to be less capital intensive and less inclined to use large-scale production techniques (Lecraw, 1980).

In total, therefore, FDI remains dominated by firms based in MDCs and the acceleration of capital flow referred to by Taylor and Thrift (1982) has enabled MNCs based in MDCs to increase their size and scope of operations. In this regard, Galbraith (1967) has argued that the growth of MNCs has been intimately associated with technological progress. Simply stated, he argues that the costs, time, planning and uncertainties involved in the creation of modern-day technology can only be undertaken by very large scale organizations. These so-called "imperatives of technology" therefore *require* MNCs and it is, for Galbraith, the goals of the latter that determine the goals of the industrial state and not the other way around (Galbraith, 1967). Indeed, in addition to access to huge amounts of capital, multinational corporations have attained a considerable degree of control over marketing, management and communication. This control has been associated with an expansion of their operations both horizontally and vertically to overcome different factor-costs both in home (donor) and foreign (host) countries. Their spread from one country to another in the form of equity investment in establishing subsidiaries, branch plants or joint ventures since World War II, especially after the 1960s has been seen as a qualitative transformation of the structure of international finance and production. Taylor and Thrift (1982 p.2) argue:

> "Capital has become more footloose and as a consequence, individual corporations are now more able to unlock resources held at one location and transfer them to a more preferable location, especially through the medium of acquisition".

Acquisition is important in this regard because it is a fast way to grow and provides firms with the " know-how" to operate facilities in foreign places and thereby reduce the risk and uncertainties of growth. Sometimes firms do not have an acquisition option, however, and international expansion requires investment in new facilities which they control fully or as part of a joint venture.

Whatever the method of entry, an important distinction with respect to investment is that between equity and portfolio capital. Equity investments allow firms to exert some kind of control over the decision making process of FDI while portfolio capital is, in effect, a loan which is made to generate a return for the lender, who does not influence the decision-making of the borrower. Dunning (1972, p.12) has observed:

> "the special characteristics of direct investment then, are first that it buys, for the investing company, a power of control over decision taking in a foreign enterprise - the extent of which will vary according to its equity participation, particularly in relation to that of other investors. Secondly, it is usually accompanied by the transference of other factor inputs, or the output of such inputs, in the form of knowledge and ideas".

It is because equity capital provides MNCs with control, and the power to allocate resources that questions arise as to whether corporate strategies and structures are socially beneficial.

International Firms in the Pulp and Paper Industry

During the 1950s and 1960s, major pulp and paper MNCs expanded their international operations both "horizontally" and "vertically". That is, pulp and paper firms have established foreign operations to duplicate part of their existing manufacturing business (horizontal integration) or to establish markets for inputs they already manufacture (forwards vertical integration) or to obtain inputs for existing manufacturing operations (backwards vertical integration). As was the case in other industries most of this investment was among already developed countries. An increasing amount, however, flowed from advanced to developing countries. An estimate by the U.S. Department of Commerce, for example, shows that U.S. based forest product companies alone invested more than $1.5 billion in the late sixties and it was the highest growth rate of FDI for any subgroup in developing countries by U.S. corporations (Gregersen and Contreras, 1975). Since then, during the turbulent years of the 1970s and 1980s, the major companies have maintained an important role in the production and trade of pulp and paper products in developing countries. Their shift of emphasis towards investing in developing countries has also been due to the needs of utilizing tropical hardwoods. While more companies, especially of Asian and European origin, are competing with U.S. based corporations in setting up foreign activities either in the form of branch plants, subsidiaries or joint ventures in developing countries U.S. based pulp and paper MNCs have played a leading role in the internationalization of the pulp and paper industry, including that found in developing countries.

In fact, the organizational structure of the pulp and paper industry in the U.S., including MNCs, have become the focus of a somewhat slowly increasing volume of literature in economics, geography and business. For the most part, these studies have concentrated on the structure of domestic operations within the U.S. and on the industry's trade position (Ellefson and Stone, 1984; Bethel, 1983). Despite a number of studies on FDI by U.S. based forest products firms (Blake and Driscoll, 1976; Gregersen and Contreras 1975), the extent of the industry's globalization, the organizational structures of these operations and the factors influencing the selection of organizational structure, for the most part, remain poorly understood (Bilek and Ellefson, 1989).

In geography, a number of studies on the issue of FDI by the major American and non-American pulp and paper firms have been initiated, notably by Hayter (1981 and 1985), Le Heron (1988) and Soyez (1989). Hayter (1981) examined the international and interregional expansion of pulp and paper multinationals with specific reference to foreign participation in the forest product sector of British Columbia. Hayter (1985) has also analyzed the role of foreign investment on the structure of Canadian forest product sector and distinguished five broad phases in the evolution of the industry within which the foreign participation took place. Le Heron (1988) studied the nature and degree of integration of New Zealand capital (both private and state) into the wood fibre markets of the Pacific Rim. Soyez (1989) has examined the case of a Swedish forest product multinational introducing Scandinavian silviculture in Canada. Both Hayter (1981) and Soyez (1989) examined the characteristics of FDI on entry into Canada, how these characteristics changed over time and the benefits and costs accruing to the host provinces within Canada.

This thesis is an attempt to complement the above mentioned geographic literature, notably that by Hayter (1981) and Soyez (1989). Thus, while their studies examined FDI in the pulp and paper industry in one particular host-economy, this thesis examines the spatial pattern and behavior of FDI in the pulp and paper industry by selected, leading U.S. based firms around the globe thus permitting a comparison of FDI from one donor-economy in various host-economies, including between developed and developing countries. By investigating entry and post entry characteristics of FDI by selected firms in this way, this thesis can elucidate international differences in the strategies pursued by firms in entering different environments and effects of different relationships between the host country and the investing firms. In this latter regard, it has been suggested that the relationships between a host country government and an MNC may change after entry. This changing relationship is often formally expressed as the "obsolescing bargain hypothesis" which proposes that after entry the bargaining power between a host country and an MNC changes in favor of the former (Vernon, 1971). According to this hypothesis, over time host country interests may be expected to increase their equity participation in foreign owned industrial projects.

Objectives and Scope

The dynamics of global shifts in foreign direct investment in the pulp and paper industry, including with respect to developing countries, provides the context for this research. Specifically, the objectives of the study are:

1. to document foreign direct investment in the pulp and paper industry by leading U.S. based multinational companies in terms of "entry characteristics", notably ownership structure, size, locational and market characteristics;

2. to situate and assess the role of FDI within the corporate strategies of the selected firms;

3. to assess how the entry characteristics have changed over time; and

4. to assess the relevance of the obsolescing bargain concept for the selected firms in the countries they have invested.

Approach

This thesis subscribes to the 'geography of enterprise' approach as initiated by McNee (1960) and Krumme (1969). This approach has been defined by Hayter and Watts (1983, p.158) as:

> "the study of the influence of the policies and structures of multi-product,multi-plant enterprises on changes in industrial location and on processes of regional economic development"

This definition reveals the importance of enterprise as an important dimension in industrial and regional economic analysis. Enterprises, according to this definition, have been conceptualized as an area-organizing institution capable of instigating as well as reacting to environmental change. That is, this approach places emphasis upon the ways in which multi-product, multi-plant enterprises influence the changing location of industries and the pattern of the interregional trade.

In the literature of geography of enterprise, the concept of corporate strategy has been used extensively (Hayter, 1976, 1981 and implicitly 1985; Edgington, 1987, 1989 and 1990) and this concept is widely referred to in this thesis. The term has been borrowed from the business literature, where it has been widely debated (Ansoff, 1965). In this literature, corporate strategy has largely been a broad overall concept of a firm's business and used interchangeably with the firm's policy (Chandler, 1962). Ansoff (1965) has tried to give a proper definition of the term strategy and has argued that the concept of strategy is distinct and different from that of policy. The latter, he argued, is a contingent decision while strategy refers to the rules for making decisions (see Ansoff, 1965, pp 103-21). Therefore, strategy can be referred to as the rules and guidelines a firm pursues in making investment decisions which seek to establish the firm's position over the long run in relation to opportunities and constraints in its business environment. That is, strategies define how firms compete and survive in the world of risk and uncertainties. Corporate strategies have been classified in various ways. Ansoff (1965) offers the following definitions. First, **backward** and **forward vertical integration** strategies involves expansion to internalize inputs and markets respectively. Second, **horizontal integration** involves expansion of existing products to increase market penetration and horizontal diversification is the entry into new products for the same markets. Firms can also pursue a **concentric growth strategy** which involves diversification of product mix to supply new markets while conglomerate growth representing simultaneous diversification of products, markets and technology. Whatever the strategy, it needs to be emphasized that specific investment decisions such as FDI, to be properly understood need to be placed within the context of a longer run corporate strategy.

The focus of this thesis is, therefore, primarily directed towards firms, their strategies pertaining to methods of entry to foreign countries and consequent host/corporate relationships. The interpretation of these characteristics requires case studies of the selected firms in order to understand the process of FDI. Although such case studies have some intrinsic limitations, McNee (1960), Krumme (1969a, 1969b and 1970) and Hayter and Watts (1984) have emphasized the importance of case studies of firms for analyzing change over time, the influence; of organizational considerations and of intangible considerations (see also Firn, 1976; Britton, 1977; and Dickin, 1976).

Sources of Data

The study primarily depends on secondary sources of information, such as trade journals, company annual reports, Pulp And Paper International (PPI), Food and Agriculture Organization (FAO) yearbooks of statistics on pulp and paper, United Nations Center for Transnational Corporations (UNTC), newspaper and magazines. These sources provided information on product and market orientation, international expansion and overall strategies of individual firms. One problem with these sources is that companies do not organize, maintain or publish data for the benefits of academic research. As far as possible, relevant literatures have also been used to substantiate the reliability of data.

Case Studies

Firms were selected for the purpose of this study from the Pulp and Paper International (PPI)'s list of top 100 companies. Firms based in the United States were selected from the PPIs list on the basis of their operations in three or more countries. The selected firms are: Champion International Corporation, International Paper Company, Kimberly-Clark Corporation, Scott Paper Company, Westvaco Corporation and Weyerhaeuser Corporation. These firms were chosen because they are among the most important group of pulp and paper multinationals, have the longest history of FDI in the industry and information regarding their FDI is readily available. Also, considering the nature, scope and limitations of the study, as being an individuals' effort and masters' level thesis research, the number of firms chosen was limited to six case studies. Such a case study approach can be justified an two grounds. First, the factors affecting the entry and post-entry characteristics are complex. Second, it is difficult to obtain necessary data pertaining to the unfolding of corporate strategies over long periods of time.

Organization of the Thesis

This thesis is organized into six chapters. Following the introduction, Chapter II provides the theoretical context for the study. It begins with an overview of the existing theoretical explanations of the activities of multinational corporations and foreign direct investment. The focus in this chapter is particularly directed to the so-called industrial organization theories of multinational firms, especially the underlying concepts of entry advantages and entry barriers proposed by Caves (1971), concepts which have been adopted by geographers e.g. Hayter, 1976 and 1981; Soyez, 1989. In addition, this study proposes to extend the discussion of entry barriers and entry advantages to incorporate the obsolescing bargain hypothesis in order to direct attention to the changing behavior of multinational firms after entry.

Chapter III reviews the organizational structure of the pulp and paper industry as dominated by the 100 largest firms, and describes the extent of the internationalization of these large firms. In Chapter IV, emphasis is placed on explaining the distinctive characteristics of entry and subsequent investment behavior of the selected firms.

Chapter V examines the foreign investment strategies of selected six American pulp and paper firms. Finally, Chapter VI provides a general summary and conclusion.

CHAPTER II

The Expansion of International Firms and Locational Choice

There has been a burgeoning volume of literature on the behavior and structure of multinational business corporations in the last third of this century in a variety of disciplines, especially business, economics, geography, sociology and political science. Efforts have been directed towards the study of multinational corporations, their organizational set up, strategies, location, operation and many other aspects. Economic geographers have contributed to an understanding of corporate behavior, particularly with respect to explanations of the choice of location and locational change.

Location and Business Organization

Studies by economic geographers have commonly treated space as a discrete and disembodied variable, independent of the organizations that operate within it. Indeed, McDermott and Taylor (1982) argue that geography has overemphasized space, neglecting organizational aspects (see also Krumme, 1969; Hayter and Watts, 1983). They argue that locational choice, to be properly understood, must be placed within the context of the investment strategies and organizational structures of the firms. Accordingly, in this chapter, theories of the international firm are reviewed. Particular stress is placed on the so-called industrial organization theory of the multinational firm since this theory offers several advantages for economic geography analysis (Hayter, 1981). First, this approach offers a general rather than a partial explanation of FDI. Second, this approach does not make any priori assumptions about the social advantages and disadvantages of multinational firms. Third, the argument expressed by Caves (1971) imparts to studies of the location decision making process with greater theoretical significance than is commonly supposed in the geographical literature. In addition, this chapter incorporates the idea of corporate strategy and the obsolescing bargain within this framework.

Theories of Foreign Direct Investment: An Overview

Until the 1960s, foreign direct investment was considered exclusively as a special form of the international movement of capital. Classical theory of international factor movements assumed that differences in the relative endowments of capital among countries caused differences in the marginal efficiency of capital and the level of interest rates. This theory predicted the flow of both portfolio and direct investment from developed capital-rich to capital-poor developing countries. Neo-classical economists viewed the impact of foreign direct investment on developing countries from a perspective of market behavior and explained that foreign investors brought new, scarce resource capital, technology, management and marketing skill to host developing countries (see McCormac, 1980 and Todaro, 1981). In effect, according to this view, the presence of multinational corporations in host economies increases competition, improves efficiency, adds job and increases the distribution of income.

This traditional, aggregate interpretation of FDI began to be severely criticized in the early 1950s and 1960s. Thus, several studies identified ways in which multinationals imposed costs on host economies. In particular, it was argued that foreign ownership of industry truncates local economic development to the extent that branch plants limit local autonomy over investment decision-making, inhibit export potentials in secondary manufacturing and, by substituting corporate linkages for local linkages, increase dependency on imported goods, services and technology. Criticisms about the role of

MNCs in host economies were most stridently expressed by Frank (1967) who pursued the theme of the "development of underdevelopment". Criticism of multinational corporate behavior is widely evident in non-Marxist literature, however, and has been widespread for some time (e.g. Marshall, Southard and Taylor, 1936).

The traditional interpretation of FDI has also been criticized because, even at the aggregate level, it does not describe or predict capital flows very well. Most FDI, for example, occurs among rich countries and a great deal is intra-industry. Moreover, it has been shown that MNCs, once established, tend to utilize local supplies of capital and through profit repatriation and other mechanisms are a cause of capital outflow- including with respect to developing countries. Certainly, at the level of the individual firm, FDI has represented a much richer experience than anticipated by the aggregate model.

In response to these criticisms, numerous theories have been put forward in recent decades to explain the behavior of firms as they expand internationally.

Within geography, Hamilton (1986) has usefully classified the various theories in the non-Marxist literature that have been put forward by different authors in economics and business. According to him, almost all theoretical ideas are either or a combination of the following approaches which should not be considered mutually exclusive:

1. the supply-oriented theory of location which allocates production to least-cost centers on the basis of transportation, labor and other costs;

2. the market-oriented theory of location allocating FDI to profit-maximizing centers and incorporating both interdependent behavior of oligopolistic competitors attempting to capture their share of national markets and reduce bandwagon effects of follow-the-

leader entry by rivals. The international trade-distortions introduced in host countries by national tariff and other barriers such as distance and transport time/ cost imperfections may induce MNCs either towards defensive FDI in order to maintain their share of global sales or aggressive FDI to exploit profit opportunities;

3. restrictions on factor mobility imposed by national ownership of resources or by labor immobilities, that gave birth to the product life cycle theory of international trade and production. This approach attempts to explain the dynamics of MNC activity from export to FDI and subsequent changes in the character and location of FDI;

4. market imperfections in host country as introduced by artificial tariff and other measures which may simultaneously offer MNCs alternative profit opportunities and yield a loss of real income to the host country (see Parry, 1980);

5. industrial organization theories which stress the significance of firm-specific advantages associated with oligopoly in FDI in general, and, in particular, economies of scale and economies of internationalization of various transactional costs through the firm's exploitation of its organizational, accounting, marketing or other skills in a manner which extends across international boundaries (see Vernon, 1971; Dunning, 1981)

In practice, several of these theories, for example, the product cycle model, focus exclusively on secondary manufacturing activities and/or focus on specific situations, such as the tariff model of FDI. The industrial organization approach to FDI, however, is more general and explicitly incorporates behavior by firms in all economic sectors, including the resource sector. Moreover, as noted, this approach has certain advantages for geographical analysis including by highlighting the role of locational choice. In this regard, one of the commonly accepted versions of the industrial organization is provided by Caves (1971).

Spatial Entry Barriers

The essence of Caves's (1971) theory rests on the idea of a "spatial entry barrier" which in turn was based on the idea of "entry barrier" as pioneered by Bain (1956). Bain was principally concerned with the problems confronting firms that wished to begin production in an industry which contained an existing population of firms.

Firms contemplating entry into new markets or new industry generally have to face the power of the existing firms who have established production facilities, skilled employees, marketing channels and accumulated profits. This power and know-how constitute entry barriers to new firms. As Stigler (1968, p.67) stated:

> "a barrier to entry may be defined as a cost of producing (at some or every rate of output) which must be borne by a firm which seeks to enter an industry but is not borne by firms already in the industry".

This idea has been applied by Hymer (1960, also 1976) and Caves (1971) to the problem of existing firms wishing to expand into a new product-market or geographic-market. Thus Caves (1971) argued that firms contemplating investments in foreign environments must have some entry or competitive advantage vis-a-vis actual or potential local competitors in order to compensate for various spatial barriers to entry. Local entrepreneurs, for example, do not face the same problems of communication as firms operating across national boundaries and local entrepreneurs enjoy much knowledge pertaining to local legal, cultural, political, economic and physical conditions. They also have a better ideas than foreign firms where relevant information can be found. Hayter (1981, p.100) thus referred to such spatial entry barriers as those which:

> "pertain to the managerial costs (time and resources) *and* uncertainties incurred by foreign compared to local investors during the selection of regions, communities and sites so that their a *priori* assessment is necessarily judgmental".

These costs and uncertainties are incurred in the locational decision-making process and numerous studies have confirmed that they can be considerable. That is, lack of familiarity with local conditions has frequently been the cause of mistakes such as the selection of appropriate technology. Moreover, these difficulties appear to be particularly substantial in resource industries where firms need to understand the frequently complex characteristics of natural resources such as forests and ore bodies. Indeed, resource-based firms, including forest product firms, have experienced substantial and costly difficulties in locating in new environments (Hayter, 1978; Ricks et. al., 1974; Soyez, 1989).

The size of spatial entry barriers facing firms is clearly associated with the physical, social, political and economic distances between host and donor economies. For example, the tendency of American firms to first expand into Canada, or for Japanese firms to first consider, on the whole, Asian countries, makes sense from this perspective. This preference may vary for particular regions of a host country according to the MNCs country of origin (Blackbourn, 1978 and 1982). For example, Kemper and Smidt (1980) maintained that firms of European origin operating within the European Economic Community have been more responsive to regional location subsidies as a means to reduce spatial entry barriers than firms of U.S. origin. Also, in this regard, poorer countries are likely to be perceived to be higher risk investments than industrialized countries for reasons related to political stability, distinctive local customs, and labor attitudes and skills. For forest product firms based in countries with largely coniferous forests, expansion to tropical countries poses particularly different problems of unfamiliarity.

Moreover, government policies in both host and donor economies may play a greater or smaller role in influencing spatial entry barriers. Thus, host government policies which seek to attract MNCs offers subsidies and/ or providing information about local conditions effectively serve to reduce spatial entry barriers. Alternatively, host country policies which place restrictions on MNC behavior and require MNCs to engage in extensive negotiations increase the size of spatial entry barriers. Similarly, the donor government policies exert an influence on MNCs motivation, and strategy affects the size of the spatial entry barrier (Edgington, 1987 and 1990). These include various guarantee schemes such as the provision of risk insurance to the MNCs by donor governments for investing abroad. However, as firms gain experience and accumulate local know-how, spatial entry barriers are accordingly reduced.

This discussion of spatial entry barriers also underlines the significance of acquisition as an entry strategy. Simply stated, acquisition offers the least risk form of entry into a host economy in that foreign firms inherit both accumulated capital and human resources, In situations where acquisition is not possible firms can acquire at least local know-how by entering into a joint-venture with a locally based firm. Otherwise, the foreign firm must bear all the costs and uncertainties of establishing a facility in a host economy.

Entry Advantages

To overcome spatial entry barriers firms must have some entry advantage(s). In this regard, Caves (1971) distinguishes between horizontally and vertically integrating firms. In the case of horizontal expansion, entry advantages relate to some expertise the firm has developed and which it can invest in a new environment without the need to incur much or any of the fixed costs associated with its original development. This expertise or asset may relate to technique, product, marketing or organization. The cost and uncertainties of 're-inventing' this asset by firms in a host economy are a measure of the size of the horizontally expanding firms' entry advantage. For vertically expanding firms, entry advantages are rooted in the advantages of supplementing the market mechanism. Thus, to the extent that corporate control over the quantity, quality and timing of flows of goods and services between technically linked stages of production provides for greater security and stability and less uncertainty, that is for a reduction in 'transaction costs', vertically expanding firms will enjoy entry advantages.

It is sometimes suggested that vertical integration is typically pursued by resource-based firms and horizontal integration is typically pursued by firms in secondary manufacturing. In practice, international expansion typically involves elements of both. Resource-based firms, for example, may wish to expand internationally to obtain new sources of supply for affiliated operations while also drawing on their accumulated expertise in production know-how. Similarly, secondary manufacturing firms may expand internationally while relying on affiliated inputs.

It might be noted that firms have traditionally not expanded internationally in the pursuit of a conglomerate strategy. However, conglomerate growth has frequently been based on acquisition and in many instances the acquired firms have been international in scope. In this way, conglomerates have increased their sphere of control to include international operations.

Corporate Strategy

Theoretically, firms have an extremely wide range of growth opportunities they can pursue. In practice, specific investment decisions are constrained by the nature of the firm's accumulated resources in relation to projections about relevant environment trends. Thus, poor growth prospects within an industry or region may encourage firms to diversify existing operations and to forfeit potential synergistic advantages, such as the economies to

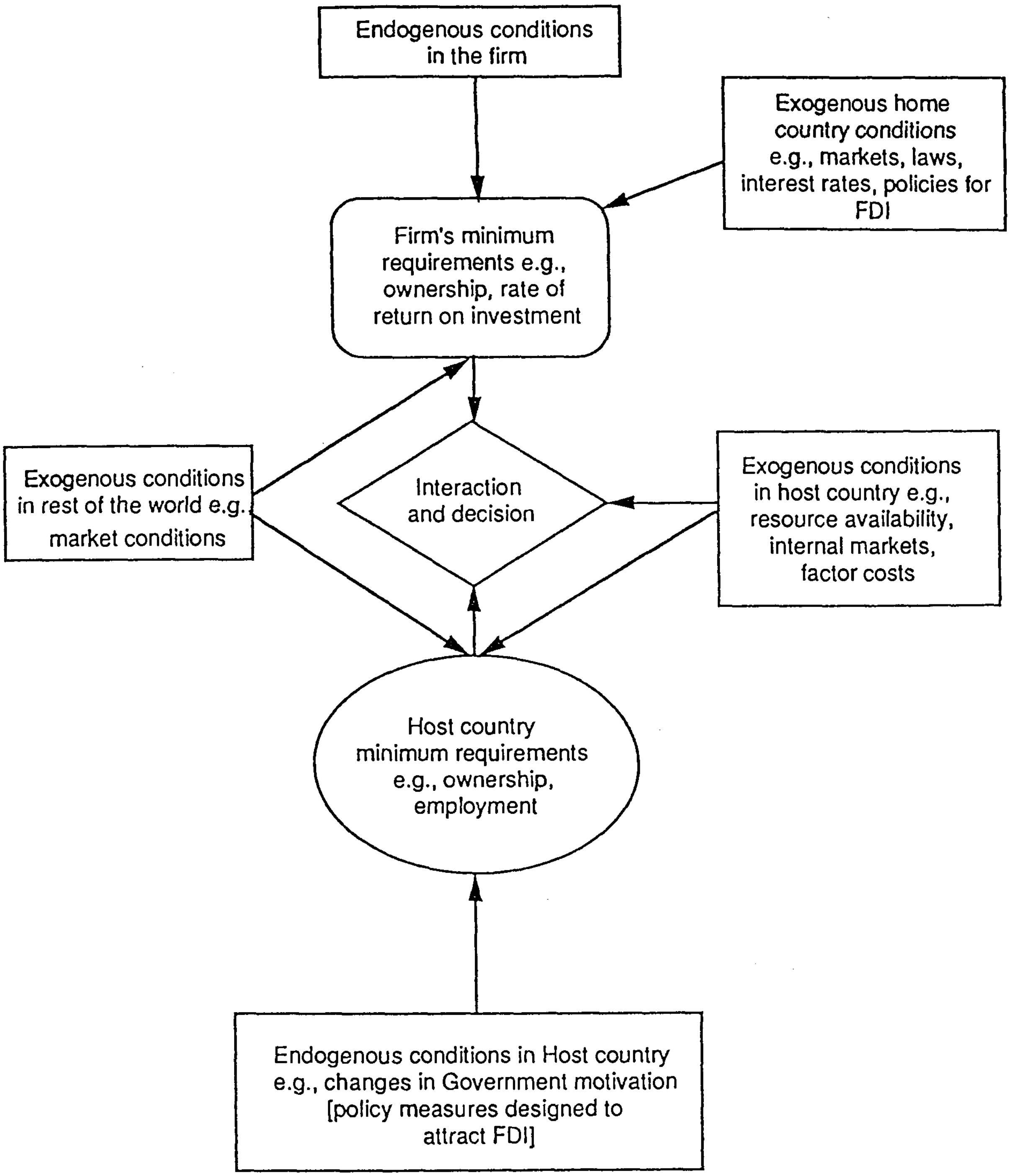


Figure 2.1: General Framework for Analyzing FDI in the Pulp and Paper Industry
(*After*: Gregersen and Contreras, 1975, p.49)

be gained from expansions that result in a higher utilization of existing facilities and functions. Restrictions of corporate growth may also result from internal changes in goals and philosophy. Because geographic risks would be compared to business risks, however, firms would not normally be simultaneously expanded internationally and diversified away from their major sources of expertise (Hayter, 1986).

Thus, international growth is typically implemented via strategies which are related to a firm's entry advantages. International expansion strategies therefore can be perceived as coherent and internally rational bundles of linked decisions that are distinguished by particular goals, preferences and priorities. In this regard, corporate strategies and behavior patterns in host economies are extensions of parent firm's corporate strategies. These, according to the *eclectic model* of Dunning (1981), are guided by features in donor economies such as history of industrial organizations, business culture and links between government and business (see Dunning, 1981; also cited in Edgington, 1987). At the same time, corporate strategies are influenced by the opportunities and constraints imposed by the physical, economic regulatory environment of a host country. The FDI decision by the MNC therefore reflects a balance of motivations, opportunities and constraints and typically involves a bargain between firm and governments over certain benefits which in turn involves a process of negotiation (Figure 2.1). In this interaction process, the policies of both home and host countries serve as crucial filters to the opportunities and constraints facing MNCs.

In this context, locational choices therefore are a type of 'spatial adjustment' which are integrated within a sequence of on-site, inter-site and new-site decisions. Indeed, corporate systems continuously evolve. Thus, once established international investments may be expanded or modified in some way, used as a basis for further growth within the host economy or, for various reasons, even divested.

Post-entry Behavior and the Obsolescing Bargain Hypothesis

The strategies pursued by foreign-owned subsidiary firms ultimately depend upon the discretion of the parent firm. In some instances foreign subsidiaries consist of a single plant or complex and their mandate is an extremely restricted one, for example, to supply a specific quantity of resource to the parent company or serve the local market. Joint venture arrangements frequently have such a narrowly defined function with little or no growth dynamic of their own. In other instances, foreign owned subsidiaries can pursue very aggressive investment strategies although it is rare for a subsidiary company to have the mandate to invest outside its host economy.

Of course, once established foreign owned companies no longer face "entry barriers" as they accumulate the know-how and experience of local companies. Indeed, given the resources of their parent company they may enjoy significant competitive advantages over local companies. In this regard, foreign companies may find joint ventures less to their preference. If so, it may be expected that local partners will be bought out by the foreign firm to give it clear control.

The post-entry behavior will necessarily be influenced by government policy towards foreign ownership. Typically, those countries such as Canada that have an 'open door' policy towards foreign investment will subsequently treat foreign-owned subsidiaries as if they were locally owned companies. Other governments, however, have a less sanguine attitude towards foreign investors. Indeed in 1971 Vernon put forward the concept of the obsolescing bargain, which analyses FDI as a bargaining process between host countries and multinational corporations during and after entry (Vernon, 1971). The idea of the obsolescing bargain has attracted the attention of many researchers in the field of industrial organization since 1971. This idea provides an understanding of the evolution of the bargaining relations between host country and foreign investor over the life-span of the investment. Furthermore, this concept provides an analysis of the investment climate facing FDI and a perspective about the eventual strengthening of host country's position in renegotiating the initial agreement to acquire more benefits from FDI.

According to this formulation, each side (the host country and the corporation) seeks to maximize benefits from the investment. To varying degrees their goals may be congruent or in conflict. That is, to some extent gains for one party are losses to the other. Moreover, the bargaining process involves risks and uncertainties and the nature of these risks and uncertainties changes over time. Thus, prior to investment, negotiation typically favors the investor since they have more information about the relative profitability of the prospective investment. Thus multinational firms can potentially use this advantage to bargain for concessions from the host country especially if the host country is capital scarce. On the other hand, once the investment is successfully completed and risk and uncertainty recede, the relative position of the firm in the bargaining process weakens to a considerable extent.

Later on, after the investment has been established, host countries are in a stronger position; they have more information as they gain acquaintance with the technology and managerial skill. In addition, it is very difficult for firms to re-locate resource-based operations. As a result, host countries may gain a stronger position which can lead to a revised bargain with the MNCs, in favor of the host country.

Whether or not the obsolescing bargain provides a possible source of friction and instability lies in the objectives of each side, which may be conflicting as well as complementary. One source of conflict, for example, may relate to attempts by the host country to insist on a degree of local ownership, while the MNC wants majority, or, preferably, total control. Clearly, in such a situation compromise is only possible if the host country accepts less than 50 percent ownership.

The main thrust in the formulation of the obsolescing bargain is then a 'shift of power' from the foreign investor (MNC) to the host country which in turn springs from the dissipation of risk and uncertainty. There may be also a sort of 'hostage effect' whereby the foreign investor cannot easily threaten to withdraw once its investment has been made in plant and equipment.

Further, to the extent that a host country can augment its capabilities, that is move up a 'learning curve' of bargaining and managerial skill, the host country may be able to drive a harder bargain with the foreign investor. For example, the host country could threaten legal sanctions or nationalization as an immediate threat to the investor which may in turn lead to further negotiations. Therefore, the obsolescing bargain hypothesis predicts that the initially favorable investment arguments of multinational corporations are likely to be subsequently renegotiated over time. And, the entry advantages that a foreign firm may have are likely to change with the progression of time.

This concept was first tested in case studies in the extractive sectors of copper and petroleum in developing countries, particularly by Pinelo (1973), Moran (1975) and Sklar (1975). These studies concluded a definite pattern of tightening the early beneficial terms of concession agreements by host governments after operations successfully came on-line. The findings of these studies included a pattern of demand for higher taxes, greater processing, joint marketing, more local nationals in managerial positions and a higher share of ownership by the host country.

Two more recent studies should be mentioned with regard to applicability of the concept. Shafer (1985) analyzed the mining sector in the economies of Zaire and Zambia using the obsolescing bargain as a framework. He focussed on what happens when host governments push the obsolescing bargain idea to its extreme, namely full nationalization. In particular, he argued that nationalization does not bring expected benefits; rather it inflicts unexpected costs on both countries' economies. Grieco's (1982) study of Indian experience with the international computer industry reveals the presence of such a bargain in the secondary manufacturing sector, especially in mature and high-tech industries.

The above examples show that the idea of the obsolescing bargain has applicability in the extractive as well as in the manufacturing sectors. Most of these studies have been carried out by non-geographers although recently Auty has applied this concept in the case of Caribbean plantations, mines and oilfields (Auty, 1985). The hypothesis would also seem to have relevance to the pulp and paper industry. Pulp and paper operations are highly capital-intensive operations which cannot be relocated and they rely almost entirely on local inputs. It might be expected that, over time, local populations will acquire an understanding of how to effectively operate such industry.

Summary

It appears from the above review of different theories, including the obsolescing bargain, that any investment decision, whether in the extractive, resource, or manufacturing sectors, is subject to a varied set of political-economic-geographic factors. And, foreign investment, which involves firms in investment decisions outside their country of origin, is much more vulnerable to these factors. Because, foreign firms that are entering into a new environment normally have to struggle with their unfamiliarity of these conditions which might pose barriers to their entry. This 'barrier to entry' could only be surmounted if the foreign firm is provided with specific entry advantages for a competitive edge over their local competitors (Soyez, 1988, p.134).

It could therefore generally be argued that a host country in which there is volatility in the socio-politico-economic environment, or in which there is a 'threat' of having investment nationalized, is more of a risk and therefore *ceteris paribus* less attractive to MNCs as an investment opportunity. Foreign investment decisions are thus sensitive to host country situations and companies seeking to invest in another country prefers better investment or business climate. The dynamics of the socio-politico-economic situations of host countries may require constant adjustment through bargaining.

As the review of the existing theories of FDI and the multinational corporation by Hamilton (1986) makes clear, it has been argued that both classical and neoclassical theories do not help us understand the FDI process. Rather, these theories are concerned with rates of growth to savings and investment. Trade theories which emphasize that foreign direct investment originates only from the firm's desire to exploit firm-specific advantages abroad provide for a more realistic interpretation of the FDI process; but these theories tend to ignore the ownership pattern and control. Because the multinational firms that are entering into a foreign market through subsidiaries or branch plants generally prefers to have a control of their operations.

The political and economic policies and situations, and/ or favorable business climate in both host and home countries, may influence the FDI decision making process. This fact, indeed, modifies the impression that multinational corporations choose their investment sites in order to capitalize on low wages and surplus labor of the developing countries. Schneider and Frey (1985)'s study of FDI in 54 developing countries suggest that the size of home-market, price-exchange stability and political stability outweighs the influence of relative labor cost and skill levels. Firms, therefore, make FDI decisions after assessing the host country's environments. The advantages that a foreign firm has at the time of entry may not remain similar but are likely to change with time as host countries receive more information and expertise about the investment. This surely does influence the characteristics of the FDI.

CHAPTER III

Foreign Direct Investment in the Pulp And Paper Industry

Foreign direct investment (FDI) in the pulp and paper industry occurred sporadically prior to 1950 although significant American investment in Canada existed before then (Hayter, 1985). Since 1950, the sources and destination of FDI in pulp and paper has expanded and geographically diversified. According to Gobbo (1981, p.77):

> "the existence of geographic imbalances between demand and supply of raw materials, besides causing intense fluctuation in international trade has induced firms in various countries to engage in the construction or acquisition of production facilities beyond their country's border".

This imbalance is perhaps the *raison d'etre* for the internationalization of the industry. Gobbo (1981) has classified two broad phases in the internationalization process of the pulp and paper industry which he referred to as the 'Canadian phase' and the 'Brazilian phase'. Broadly speaking, the Canadian phase occurred during the 1950s and 1960s and the Brazilian phase began after 1970s. These trends have been associated with several factors. The availability of raw material, specifically timber, has exerted a profound influence on the production pattern of the pulp and paper industry. The abundance of wood resources, mainly conifers, of the temperate north gave the early advantage industrial development to countries such as Norway, Sweden, Finland, the United States and most notably Canada. Throughout these regions, however, by the 1970s wood supply potentials were nearly exhausted. At the same time, newly established plantations provided a source of very rapidly growing timber in tropical areas. Moreover, technological changes have allowed the pulp and paper industry to utilize a wider species mix and thereby to geographically diversify operations. Such a trend has been facilitated by the growing demand for pulp and paper in both developing countries and elsewhere.

Figure 3.1: World Pulp Production, 1951-1985

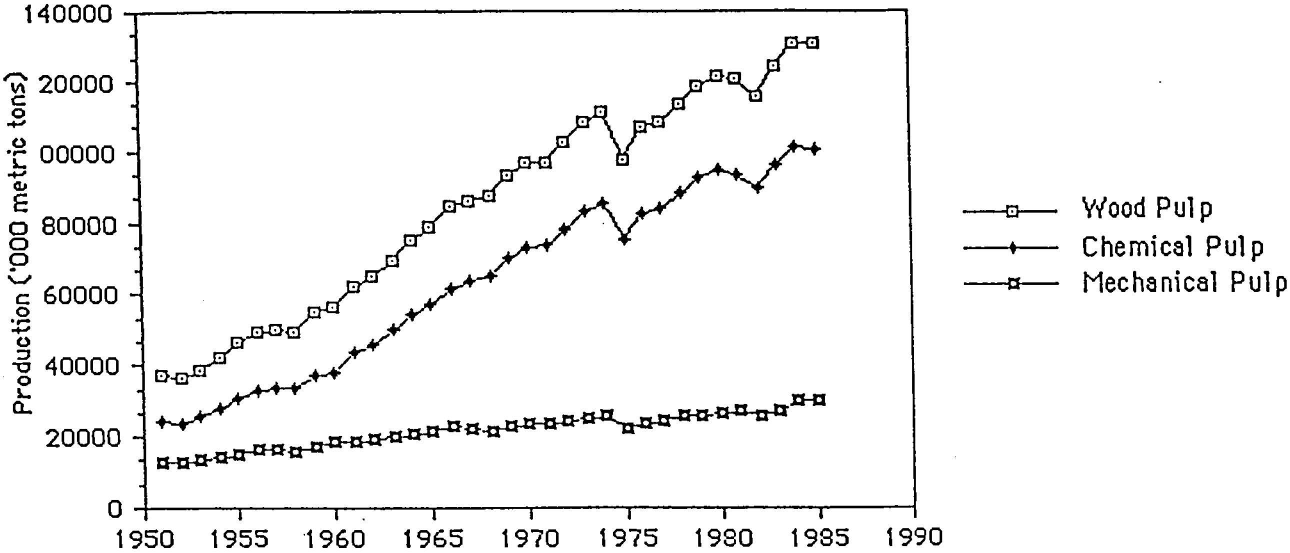
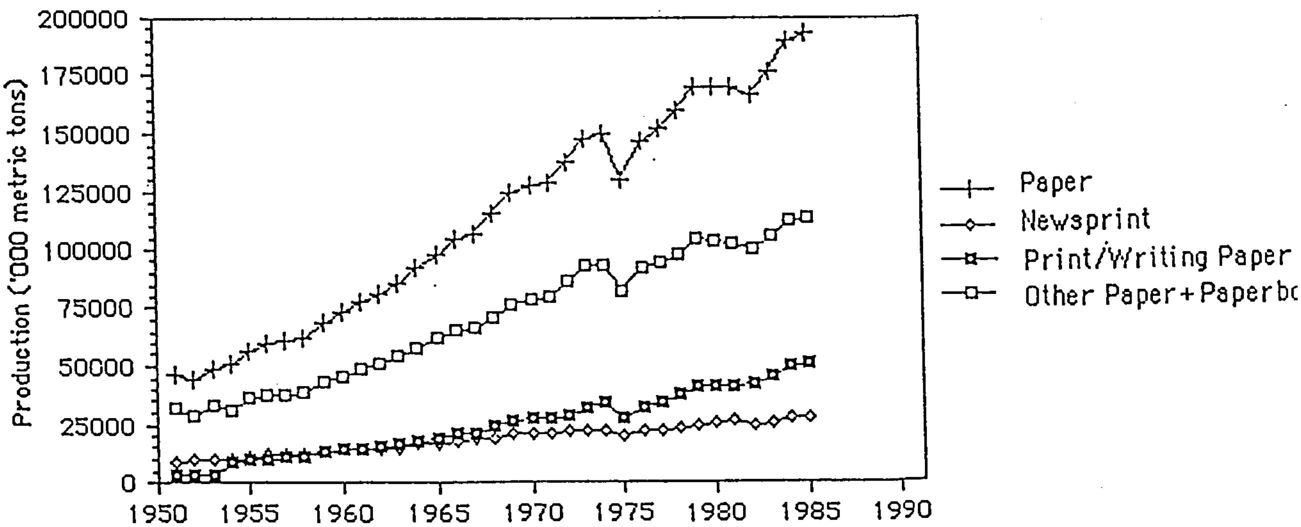


Figure 3.2: World Paper Production, 1951-1985



Source: FAO Yearbook of Forest Products.

By all estimates, world consumption of paper and paper products is expected to grow substantially before the end of the century. According to FAO estimate, for example, the world consumption of paper increased from 45.9 million metric tons in 1951 to 192.3 million metric tons in 1985, an increase of 319.3 per cent (FAO, 1986). Consumption characteristics between 1951 and 1974 were particularly impressive: total consumption tripled and the annual growth rate was 5.7 per cent. After 1974, however, the consumption pattern was characterized by instability. In 1975, total consumption fell below that of 1974 and, after picking up, it fell again in 1982 below the previous year. The annual growth rate for the period 1975- 1985 period was 2.3 per cent. Consequently, the world's pulp requirement has continued to expand but at a decreasing rate.

FAO estimates placed the world's output of pulp increased from 38.8 million metric tons in 1951 to 140.7 million metric tons in 1985 for an annual growth of 3.3 per cent (Figure 3.1). In the paper sector, production increased from 46.3 million metric tons to 192.8 million metric tons registering an increase of 316 per cent and annual growth rate of 4.1 per cent (Figure 3.2). As was the case with pulp and paper demand, paper production pattern shows two distinctive parts to this growth. Thus, the period from 1951 to 1974 was a period of steady growth at an annual rate of 5.2 per cent. After 1974, this pattern changed into an unstable one in which the growth rate registered an average of 2.3 per cent per year.

Leading pulp and paper MNCs have responded to the changing demand and supply conditions of raw materials for producing pulp and paper through investment in new and existing facilities within their home countries and, to some extent, in foreign countries. In practice, FDI in pulp and paper has served both local and foreign markets.

The aim of the present chapter is to examine the internationalization of the pulp and paper industry. In doing so, this chapter examines in broad outline the internationalization of the dominating 100 firms as listed by Pulp & Paper International. While these patterns have been strongly shaped by policies of host and donor countries and rate of return on marginal investment have had a profound influence on their expansion into the developing countries. This chapter is divided into two parts, the first part reviews the characteristics of the 'internationalization' process. In the second part, it deals particularly with the specific conditions of FDI in developing countries by the major multinational pulp and paper companies.

Corporate Strategies in the Pulp and Paper Industry

As stated in the preceding chapter, firms have in theory an extremely wide range of growth opportunities. In practice, firms select only a few of these and those chosen are normally influenced by the nature of the firm's accumulated resources in relation to projections about relevant environmental trends. If prospects are poor in a given industry or region, firms may consider diversification. Diversification, however, involves considerable costs and uncertainties.

In the pulp and paper industry, international expansion has been typically implemented by firms pursuing strategies of horizontal and vertical integration. These firms have almost invariably been among the largest in their domestic contexts and in general MNCs account for important share of global production. In 1983, for example, the largest 100 firms produced about 52 percent of total world paper and board output (PPI, 1984). The industry structure may therefore be characterized as mildly oligopolistic. Over the past two decades or so, however, many pulp and paper firms have been acquired by conglomerates (Ofori-Amoah, 1989). This particular characteristic as Gobbo (1981) observed creates difficulties "in assessing the conduct of firms". The problem relates to the loss of information on the acquired firms and, as such, it becomes difficult to assess their conduct in a given industry.

As noted, however, pulp and paper firms including subsidiary firms have primarily expanded by their horizontal or vertical integration strategies. Such firms have rarely initiated conglomerate type of diversification. The ultimate reason for vertical integration relates to different factor-cost savings. Among them, raw material is of prime importance, which involves the cost of procuring and transportation to the facilities. The possession of rights to timberlands provides firms, not necessarily the cheapest source, but at least an uninterrupted or secure wood supply and possibly a proper combination of wood species. The majority of the firms among the top 100 have control or at least access to forest resources via long-term leases in their countries of operation. Therefore, management of forest reserves or timberlands for ensuring steady supply of raw material industrial timber is an important aspect of operation of the largest pulp and paper firms.

Figure 3.3 shows the four main production processes in the pulp and paper industry which reveal the principal tendencies of vertical integration. These, Gobbo (1981) has delineated into three categories that have manifested in recent years:

a) firms producing pulp, whether or not integrated, usually control forest resources and carry out operations of forestry. The few exceptions are the non-integrated firms which have tried to overcome their deficiencies. These firms obtain their required wood from many small independent logging operators;

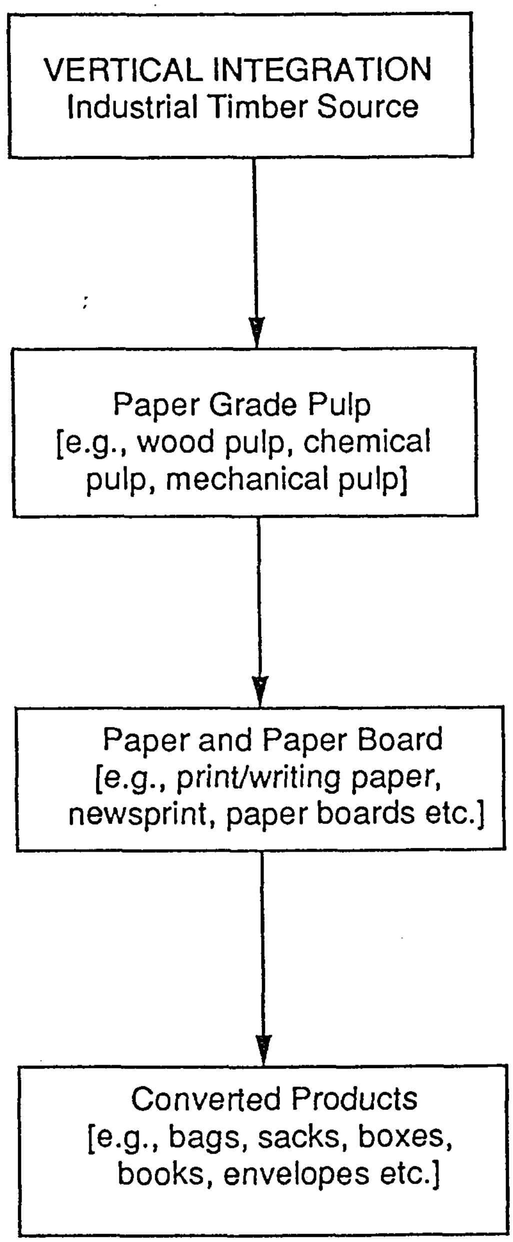


Figure 3.3: Vertical Integration in the Pulp and Paper Industry (Source: FAO).

b) market pulp producing firms have in recent years manifested a high propensity to enter into the production of paper;

c) the non-integrated or less-integrated paper producers have integrated with different intensities either backward production of pulp or forward paper converting activities. Kimberly-Clark and Scott Paper are a good example of such firms.

Table 3.1 provide some broad insights into the extent of vertical integration of the major pulp and paper firms in 1984. Typically, these firms manufactured market pulp, paper and paperboards and converted products (such as boxes, bags, folding cartons and tissue products). To a significant level, these firms utilized their own pulp and paper. These data underestimate the degree of vertical integration since they do not show log harvest and wood processing. Despite the fact that the data in Table 3.1 include only the integrated and diversified firms, which limits any conclusive arguments, we can safely say that there had been a high propensity of production of paper by the top 100 pulp and paper firms.

The extent to which the largest pulp and paper manufacturing firms rely on pulp and paper as a source of revenue varies (Table 3.2). With respect to the largest 100 firms surveyed by PPI, for example, 56 firms obtained over 80 percent of their revenue from pulp and paper sales, 29 firms received between 51-80 percent and 15 firms less than 50 percent of their sales from pulp and paper in 1976. Thus, pulp and paper firms tend to be relatively concentrated within the industry. Indeed, if wood processing sales were included, the specialization of these firms within the forest product sector would be even more pronounced. Moreover, there has been a tendency for sales concentration by pulp and paper firms in the pulp and paper sector to increase. In 1986, for example, 63 of the largest 100 firms obtained more than 80 percent of their sales from pulp and paper. This trend is

Table 3.1: Distribution of Production of Pulp and Paper Products by Selected Firms, 1984.

Firm	Home Country	Production in 000 metric tons		
		Market Pulp	Paper & Board	Converted Products
Georgia Pacific	U.S.A.	570	2452	1443
Weyerhauser*	U.S.A.	980	3000	-
Champion International*	U.S.A.	150	3660	225
International Paper*	U.S.A.	700	5000	2300
Boise Cascade	U.S.A.	296	1914	-
Kimberly-Clark*	U.S.A.	1372	906	n.a.
Crown Zellerbach	U.S.A.	-	1795	-
Scott Paper*	U.S.A.	100	2000	1300
Reed International	U.K.	25	795	555
Mead Corp.	U.S.A.	437	1800	-
Oji Paper	Japan	11	1967	-
Fletcher Challenge	New Zealand	281	691	-
Container Corp.	U.S.A.	-	3069	-
Westvaco*	U.S.A.	87	1942	-
MacMillan Bloedel	Canada	358	1531	n.a.
Honshu Paper	Japan	-	1276	n.a.
Stora-Kopparberg	Sweden	1025	1522	60
Svenska Cellulosa	Sweden	330	818	430
Wiggins Teape	U.K.	-	370	n.a.

Source: Pulp and Paper International Top 100 Survey, 1984.
n.a. not available
* selected for this study.

Table 3.2: Distribution of Percentage of Pulp and Paper Sales to Total Sales of Top 100 Firms by Country in Selected Years

Firms/	1976				1980				1986			
Country	10 - 50	51 - 80	81+	Total	10 - 50	51 - 80	81+	Total	10 - 50	51 - 80	81+	Total
U.S.A.	4	10	21	35	6	8	16	30	4	9	18	31
Canada	1	4	1	6	-	5	2	7	-	4	6	10
Scandinavia	8	8	9	25	4	11	8	23	1	6	9	16
E.E.C.	1	1	14	16	4	3	11	20	3	2	13	18
Japan	1	2	9	12	-	2	10	14	1	3	11	15
Others	-	4	2	6	-	1	5	6	1	2	6	9

Source: Pulp and Paper International Top 100 Survey, 1976, 1980 and 1986.

evident in MNCs based in Scandinavia, Canada and other countries. In the United States, the tendency, admittedly slight, was in the opposite direction.

Although less easy to document simply, there has been a considerable change in the structure of the industry both at local and global scales during the last few decades. These changes have been dominated by widespread merger and acquisition. An important consequence has been an increased concentration of ownership (Aurell and Poyry, 1988, p.9). For example, in the US many smaller and medium sized firms have merged with each other or, more typically been taken over by relatively larger firms. One argument for this trend is that capital requirements have become so great that small companies have had to take shelter under big corporate umbrellas which are capable of handling the underwriting responsibilities. At the same time, large firms acquire smaller firms in order to enhance market share and versatility. In general, an enchantment for growth both in home and foreign countries motivates large firms to acquire and merge. The result is an increase in the size of firms.

Associated with this increase of size of firms has been a steady decline in the number of pulp and paper firms. In the United States, for example, between 1950 and 1977, the total number of firms shrank from 570 to 350, a 40 per cent decline in less than three decades (Strange, 1977, p.220). This decline contributed to the increase in the physical size and production capacity of individual pulp and paper firms. The widespread clich´e 'grow or die' and expansion through acquisition has been responsible for such shrinkage in the number and increase in the size of firms. The firms to disappear were typically either family-owned or closely-held by families which perhaps did not obtain funds from stock exchanges. The continuously changing demands for specific product grade and the demand for technological adjustments, may also have been beyond the reach of smaller family-owned firms, and further enhanced the shrinkage.

Table 3.3: Distribution of Top 100 Pulp and Paper Firms by Country, 1974-1986

Country	1974	1976	1978	1980	1982	1984	1986
USA	32	34	34	33	34	36	31
Japan	12	12	11	10	11	8	15
Sweden	11	12	11	11	11	10	8
Finland	9	7	7	10	8	10	8
Canada	7	6	8	8	10	12	10
France	7	7	6	5	5	4	4
W.Germany	6	5	5	4	4	3	6
U.K.	3	4	4	4	4	4	4
Australia	2	2	2	2	2	2	1
Belgium	2	1	2	1	1	1	0
Netherlands	2	2	3	2	1	2	2
Norway	2	2	2	2	1	1	0
New Zealand	1	1	1	2	2	2	2
South Africa	1	1	1	2	2	2	1
Italy	1	1	1	1	1	1	1
Brazil	0	0	1	1	1	1	1
Spain	1	1	0	0	0	0	0
Denmark	1	0	0	0	0	0	0
Turkey	0	1	1	1	0	0	0
Austria	0	1	0	0	0	0	2
Switzerland	0	0	1	1	0	0	2
Portugal	0	0	0	0	0	0	1
Chile	0	0	0	0	0	0	1

Source: Pulp & Paper International Top 100 Survey.

Table 3.4: Distribution of the Top 100 Pulp and Paper Firms by Country of Origin and Rank, 1986

Country	Ranks										Total
	1 - 10	11 - 20	21 - 30	31 - 40	41 - 50	51 - 60	61 -70	71 - 80	81 - 90	91 - 100	
U.S.A.	7	7	1	5	4	1	3	1	1	1	31
Japan	3	1	3	0	1	1	2	0	2	2	15
Canada	0	0	2	2	0	0	2	1	2	1	10
Sweden	0	1	1	1	1	1	1	1	1	0	8
Finland	0	0	1	1	1	0	1	3	1	0	8
France	0	0	0	0	2	2	0	0	0	0	4
W.Germany	0	0	2	0	0	1	0	1	1	1	6
U.K.	0	1	0	1	0	0	0	1	0	1	4
Australia	0	0	0	0	0	1	0	0	0	0	1
Netherlands	0	0	0	0	0	1	1	0	0	0	2
New Zealand	0	0	0	0	1	0	0	0	0	1	2
S. Africa	0	0	0	0	0	0	0	1	0	0	1
Brazil	0	0	0	0	0	1	0	0	0	0	1
Italy	0	0	0	0	0	1	0	0	0	0	1
Switzerland	0	0	0	0	0	0	0	1	1	0	2
Portugal	0	0	0	0	0	0	0	0	1	0	1
Chile	0	0	0	0	0	0	0	0	0	1	1
Austria	0	0	0	0	0	0	0	0	0	2	2

Note: rank is determined/ based on annual sales turnover
Source: Pulp and Paper International Top 100 Survey, 1987.

Prior to 1960s, most MNCs were based in either the U.S. or the U.K.. During the 1960s MNCs based in several other advanced countries emerged. Since 1974, however, the relative importance of various donor countries has remained stable (Table 3.3). Thus between 1974-86, the US based firms maintained their position in the list of top 100 firms while the number of Swedish firms decreased from 11 in 1974 to 8 in 1986. The number of U.K. based firms remained the same over the period. In addition, Japanese firms become more important. This change most likely to occurred due to the fact of merger and acquisition of smaller firms by large firms. On the other hand, the United States-based firms had a clear dominance over its competitors in terms of sales turnover rankings followed by the Japanese (Table 3.4).

Canadian and Brazilian Phases

Internationalization of firms may be interpreted and distinguished according to the degree to which firms export and/or operate foreign operations by direct foreign investment or by licensing agreement (see Hayter, 1986a and 1986b). In the pulp and paper industry, among the dominating 100 firms, a large number have internationalized their operations over the past decades. Historically, the internationalization process in the industry has been distinguished into two broad phases by several authors (Gobbo, 1981; Hayter, 1985).

The Canadian phase refers to the tendency to FDI in the pulp and paper industry by the major firms in the first half of the 20th century. In Canada, forest resources have been exploited since the early years of settlement (Lower 1973; Wynn 1981). Hayter (1985) further distinguishes five broad stages in the evolution of FDI in the Canadian forest industry. In the first phase, prior to the 1860s, British control and demands exercised the most pervasive influence in the commercial exploitation of Canadian forests. In the latter part of the 19th century, individual American entrepreneurs and family based concerns became an important influence on logging and lumber activities. In the third phase, between 1910 and 1945, an extension of U.S. corporate interest, most noticeably in pulp and paper, occurred. After 1950, the forest product sector as a whole became increasingly dominated by U.S. based multinational corporations. In the last phase, between 1960s and 1970s, many European, Scandinavian and a few Japanese firms established their interests in Canada. During the post war phases, foreign interests in Canada have largely been attracted by the Canadian sources of raw materials, especially the coniferous softwoods, in order to supply growing market demand for pulp and paper products elsewhere, including their own countries.

Secondly, the Brazilian phase began, according to Gobbo (1981), after 1970 when the Canadian phase was coming to an end. To meet post war demands, the industry has had to search for alternative sources of fibre due to shrinking timber as more land is dedicated to wilderness preserves and ecology restrictions in North American as well as other West European countries (Boyhan, 1975). As such, tropical forests, concentrated in Brazil and other Latin American, African and Far Eastern countries, have become the alternative sources of natural fibre for the industry. This utilization of the tropical forest resource, and of plantations, for pulp and paper manufacturing, was not initiated until the 1940s. Since then, there has been a growing trend to utilize the tropical forest and plantation hardwoods, notably, *eucalyptus*, which has proven to make a particularly outstanding hardwood pulp. The estimates of the cost of producing bleached-kraft pulp-grade market pulp in the early 1980s shows such viability of the use of tropical hardwoods (Table 3.5). The average cost compared to softwood was estimated to be generally low and particularly producing hardwood pulp in Brazil, for example, was considerably lower

Table 3.5 : Estimated Average Cost of Producing Bleached Kraft Pulp-Grade Market Pulp in the early 1980s by Selected Countries

	Softwood			Hardwood	
	Western Canada	Sweden	U.S. South	Brazil	U.S. South
Direct Costs					
Fiber	138	212	116	60	101
Chemical	37	-	45	36	32
Wages & Salaries	55	85*	58	29	58
Energy	38	-	41	25	51
Other direct	37	85	47	-	46
Total Direct	305	382	307	150	288
Capital Costs					
Interest	24	-	20	-	20
Depreciation	16	-	18	-	18
Other Interest	12	-	17	-	17
Total Capital & Misc.	52	101**	55	177**	55
Total Cost	357	483	362	327	343

* the sum of the chemical, wages and salaries, and energy direct cost component
** the sum of the interest, depreciation, and other interest capital cost component

Source : PPI, 1982 (Mead Corp. estimates)

Table 3.6: Internationalization of the Top 100 Pulp and Paper Firms, 1976, 1980 & 1986.

Year/ Country of Origin	Number of Countries of Operation 1	2	3 - 6	7 - 10	10+	Total
1976						
USA	17	5	4	5	3	34
Canada	2	2	2	-	-	6
Scandinavia	6	7	7	2	-	22
E.E.C.	6	8	3	2	1	20
Japan	9	3	-	-	-	12
Others	3	2	1	-	-	6
1980						
USA	12	6	9	3	3	33
Canada	3	4	1	-	-	8
Scandinavia	8	5	8	1	1	23
E.E.C.	3	8	7	1	1	17
Japan	5	4	1	-	-	10
Others	7	1	1	-	-	9
1986						
USA	14	5	8	1	3	31
Canada	3	6	1	-	-	10
Scandinavia	4	2	8	-	2	16
E.E.C.	9	2	6	1	1	19
Japan	12	1	2	-	-	15
Others	6	3	-	-	-	9

Source: Pulp And Paper International Factbook, 1987.

than producing in the southern states- a major hardwood producing region in the United States.

Table 3.6 shows the number of countries in which the top 100 pulp and paper firms have manufacturing operations. Although the figures in Table 3.6 demonstrate this fact for 1976 as the earliest year, this process began long before 1976. The unavailability of comprehensive information on this process prior to 1976 limited the scope to focus on the aspects with respect to earlier dates. It is known, however, that especially those U.S. based firms with operations in more than 10 countries, had acquired or invested in production facilities in countries other than the U.S. during late 1950s and early 1960s.

Table 3.6 also demonstrates that there has been a considerable change in the number of firms with different categories of operations in different countries of origin. The number of U.S.-based multi-location firms, as listed in the top 100, has decreased from 34 in 1974 to 31 in 1986, although, the number of US-based firms with operations in more than 10 countries remained static over this period. Scandinavian countries have experienced a similar trend, but an increase in the number of firms with operations in more than 10 countries occurred. Canada, E.E.C., Japan and other countries have experienced a significant increase in the number of firms operating in different countries.

Trends in the number of foreign countries firms chose to operate does not necessarily reflect investment in new facilities since firms can expand internationally by merger or acquisition, and can sell or buy out. This has a direct bearing on the geographical diversification and the size of firms operating within the industry. Because, acquisition or merger provides an easy method of entry and know-how to operate facilities in foreign countries which reduces the risk and uncertainties of growth. This is particularly

Table 3.7: Distribution of the Operation and % Export to/ Production in Foreign Facilities of the Top 100 Firms, 1984

Country of	Number of Countries of Operation						% Export/ Production at Foreign Facilities				
Origin	1	2	3 - 6	7 - 10	10+	Total	0	1 - 20	21 - 50	50+	Total no.
USA	16	4	11	22	3	36	14	20	1		35
Scandinavia	5	4	10	1	2	22	-	-	3	19	22
E.E.C.	3	3	5	1	1	14	1	1	10	2	14
Japan	5	1	2	-	-	8	1	7	-	-	8
Canada	5	6	1	-	-	12	1	-	2	9	12
Others	6	2	-	-	-	8	1	4	3	-	8
Total	40	20	29	24	6	100	18	32	19	30	100

note: data not available USA 1, E.E.C. 1.
Source: PPI Top 100 Survey, 1985.

Table 3.8: The World's Largest Industrial Transnational Corporations, Selected data for 1980, Pulp and Paper Sector

Rank~	Firm	Home Country	Sales		Net Assets		Net Earnings			Employment		Export ($m)
			Total ($m)	Foreign (%)	Total ($m)	Foreign (%)	Total ($m)	Foreign ($m)	Foreign (%)	Total ('000')	Foreign (%)	
128	Continental Group, Inc.	USA	5657	29.8	1420	-	225	-	-	58	35.4	192
146	Geogia Pacific Corp.	USA	5016	-	2047	-	244	-	-	44	-	-
171	Weyerhaeuser Corp*	USA	4536	33.1	2836	8.7	278	33	11.8	46	10.5	1140
188	Bowater Corp. PLC	UK	4094	48.9	1241	-	198	-	-	35	42.4	634
188	Champion International:	USA	3753	13.4	1753	-	147	-	-	41	19.5	-
225	Reed International Ltd.	UK	3443	23	1159	41.5	89	54	60.6	61	19	208
264	Boise Cascade Corp.	USA	3033	10	1281	21.1	149	77	52	32	0.7	-
299	St. Regis Paper Co.	USA	2722	15.8	1339	21	171	34	20	30	17.2	-
306	Mead Corp.	USA	2707	5.3	860	5.7	129	6	4.4	25	-	-
315	Kimberly Clark Corp.*	USA	2600	38.2	1311	-	182	77	42.5	31	48.7	-
332	MacMillan Bloedel Ltd.	Canada	2436	79.7	9213	34	113	17	15	25	19.1	1379
368	Scott Paper Co.*	USA	2083	56.9	1121	84.4	134	72	53.9	21	-	-

Source: UNTC, 1985, annex table II.31
~ rank of 500 largest corporations listed by UNTC
* selected for this study

one of the favorable method of entry to Canada and other West European countries by many U.S. pulp and paper firms.

A significant number of foreign controlled pulp and paper operations do not export at all or have limited exports (Table 3.7). Thus, 18 out of the largest 100 pulp and paper foreign based firms did not export and a further 32 exported less than 20 percent of their sales. Clearly the idea that FDI in the pulp and paper industry is predominantly motivated to secure cheap resources for the donor economy is too simple. Thirty firms, however, did export more than 50 percent of their output.

Table 3.7 shows such distribution by the country of origin of the top 100 firms in 1985. As expected, this demonstrates a higher degree of foreign orientation for Scandinavian and Canadian firms which have access to large forest resources but small domestic markets. The U.S., which had at all times superiority in terms of the number of firms in the list of the top 100 (Table 3.1), had only one firm in the 20 to 50 percent foreign production/export category because of the presence of a large domestic market. Like the Scandinavian firms, the U.K.-based firms had also attained a less geographically limited character in 1985. Japanese firms showed a geographical limitation in terms of production in foreign countries/exporting.

The UNTC survey of the world's largest industrial transnational corporations (Table 3.8) also suggests the degree of internationalization in terms of some selected characteristics of these corporations. The deployment of resources, net assets in foreign countries, varies substantially among the firms of different nationalities. The Scott Paper Co. of USA had the highest proportion (84.4 percent) of its total assets in foreign operations. This was followed by the Reed International Ltd of U.K., MacMillan Bloedel

Ltd. of Canada with 41.5 per cent and 34 per cent of their net assets respectively, held in countries abroad.

Policies of Home and Host Countries

FDI in the pulp and paper industry is not simply a matter of wood supply and market access. Investment decisions by multinational firms are influenced by the policies and measures taken by both home and host countries. A survey of the policies as listed in Appendix 1 and Table 3.9 would reveal how both home and host countries have taken measures in order to reduce (or increase) the barriers to entry. The United States, the largest source of foreign capital in the developing countries, was the first to realize the necessity of guarantee schemes for encouraging U.S. based multinational firms to invest abroad. The United States adopted several guarantee measures in the late 1940s. It was followed by other MDCs (Appendix 1). The main features of such guarantee schemes included the assurances of different risks, notably expropriation, war and transfer risks. Most of these assurances cover (geographically) all areas of the world with amortization loss payable up to 100 per cent for a period of maximum 20 years (Appendix 1). Eventually, the United Kingdom, Sweden and Japan adopted similar policy measures to encourage FDI in developing countries (Appendix 1).

The developing countries, on the other hand, as shown in Table 3.9, adopted certain measures to attract multinational and foreign investors, in the belief in the importance of foreign private capital in the overall economic prosperity of these countries. These policies are devised for attracting foreign private capital and in general, applicable to all sectors of their economies. The characteristic features of the policies reflects directly the 'political ideologies' of these countries (UNTC, 1987). Also, the building up of national capabilities and efforts to harmonize the activities of multinational corporations with the national objectives have an important place in policy frameworks. As observed by the OECD (1972), the development of these policies and measures for the stimulation of FDI has grown alongside the evolution of the programs of official aid of the advanced capitalist countries.

Table 3.9: Selected Countries with Significant Occurrences of Investment Performance Requirements

Country	Local content exportation	Equity participation	Technology Transfer	Employment, Size location & finance
Argentina	X	X		
Brazil	X	X	X	
Colombia	X	X		
Indonesia	X	X		
Malaysia	X	X	X	X
Mexico	X	X	X	
South Korea	X	X		
Taiwan	X			
Venezuela	X	X		

Source: LCIT, 1981; Robinson, 1983
U.S. Department of Commerce, 1981; USTR, 1983.
(also cited in Bale, 1988).

Alongside these policy measures, as discussed in the previous chapter, foreign investors are expected to operate within the legal framework of the host countries. Within the legal framework, host countries generally impose certain performance requirements for the foreign investors. The main examples of these are outlined in Table 3.9. This clearly demonstrates a significant diversity of the nature of performance requirements placed by different host countries in the last decade. All the host countries of the selected firms, with the exception of Taiwan, have imposed local content and equity participation requirements. Brazil, Mexico and Malaysia have also placed local employment requirements. In addition, Malaysia is the one among the host countries which have imposed technology transfer requirements or licensing of technology to its nationals. This certainly indicates a tight policy framework for encouraging FDI.

Rate of Return on Investment

Return on investment is an important element in the investment-location decision making process in all industrial sectors. The pulp and paper industry is no exception to this fact. The return on investment, which is the profit per unit of product, is subtracted from the product prices the costs of processing as well as capital cost.

Basically, this profit provides an impetus for all sorts of investment and the larger the figure of such profits, the more attractive the investment possibility and vice versa. In other words, this may form a sort of entry barrier and sometimes viewed as a collective good (Olson, 1965, p.22-36). Because an individual firm's investment could add to the capacity of a particular industry and excess capacity may sometimes outrun the profit expectation. Thus, an understanding of such entry barriers at the scale that equates the industry's marginal cost have implications for a firm's decision to invest (Caves and Porter, 1977).

Table 3.10: Rate of Return on Marginal Investment (%) in Processing Capacity Expansion in Selected Countries, 1980.

Product Grade	Canada	USA	Brazil	Finland & Sweden	Western Europe	Japan	South-east Asia	Australia & New Zealand
White Pulp	17	17	12	11	12	17	17	22
Newsprint	16	17	6	8	6	13	11	24
Printing & Writing Paper	19	22	12	20	15	17	21	26
Household & Sanitary Paper	21	12	9	10	15	9	16	17
Packaging Paper & Board	13	21	6	15	10	11	14	16
Average	17.2	17.8	9	12.8	11.6	13.4	15.8	21

Note: 1. simple average of the rate of return for all product grade.
Source: Kallio, M. et al., 1987, p.645

The regional data needed to analyze the clarity and magnitude of such profits in the pulp and paper industry are not obtainable for all relevant countries. Table 3.10, however, depicts a substantial picture on the investment prospects of different regions for 1980.

There has been a marked regional differentiation in the rate of marginal return on investment (Table 3.10), which clearly indicates prospects of different regions for further investment. In 1980, these prospects were similar in the North American countries and were greatest in Australia and New Zealand. South-east Asian countries were in between and Latin American countries especially Brazil had the lowest rate of return in 1980. Also, there was a marked variation in the rate of return by product grade. On average, writing and printing had the highest return while packaging paper and paper board the lowest rate.

Summary

This chapter has reviewed the existing organizational structure of the pulp and paper industry in order to ascertain the conditions that might have a direct bearing on the FDI in the industry. It is observed that the industry is dominated globally by 100 top pulp and paper firms based in different countries which suggest a somewhat oligopolistic organizational structure, a few of the largest, vertically integrated firms dominating the organizational structure. Such integration provides the large firms an economic advantage over their competitors both in home and world markets.

The internationalization process in the industry has been characterized initially by two distinct phases, that is, Canadian and Brazilian phases. Historically, this two phases have been associated with the exploitation of wood fibre sources and shrinkage of such sources in the traditional areas. The search for alternative wood fibre sources, coupled with staggering post-war demand for pulp and paper products and changing attitudes of the host countries in terms of policy measures, has provided an impetus to the internationalization process. Nonetheless, the differential rates of return on investment from different product ranges in different countries also substantially influenced the process.

CHAPTER IV

Entry and Post-entry Characteristics of Selected Firms

The pulp and paper industry as a whole is currently passing through an era of increasing globalization. Forward and backward vertical integration and diversification strategies of the major pulp and paper firms, as well as changes in demand and supply conditions, have conditioned this globalization. This globalization process has been implemented by firms that have chosen different methods of entry and have implemented different types of pulp and paper operations. Subsequently, the foreign direct investment (FDI) decisions made by these firms are subject to change both for corporate reasons and because they are vulnerable to changing host country situations. This vulnerability produces a dynamic element in the characteristics of entry. The fluctuations in host country situations as well as in the international markets always places an urgency for change in the characteristics of FDI. Potentially, these changes are in terms of ownership, control, product-mix, marketing and further expansion or closure of the business.

In the present chapter emphasis is placed on explaining the distinctive characteristics of entry and subsequent investment behavior with reference to mode of entry, entry and post- entry ownership characteristics. Thus, the chapter begins with analysis of the entry characteristics of selected firms followed by the documentation of changes in terms of ownership and control of the FDI in pulp and paper industry. Such documentation provides a scope to situate and assess the role of FDI within the corporate strategies of selected firms. The selected firms, Champion International Corporation, International Paper Company, Kimberly-Clark Corporation, Scott Paper Company, Westvaco Corporation and Weyerhaeuser Corporation are among the largest 100 pulp and paper firms.

As we have discussed in chapter III the pulp and paper industry is dominated by 100 major firms that are mostly integrated in nature. The dominance of these firms suggests a mildly concentrated oligopolistic structure to the industry. We also discussed in chapter III that both international markets and host country situations have provided a general condition for entry of these major firms into foreign markets.

Firms in oligopolistic industries often go abroad to match the foreign market behavior of rivals or to counter foreign firms penetrating their domestic market. Also, firms may go abroad in search of raw material supplies, to seek additional markets, to spread geographically, to obtain greater sales volume, to spread the cost of manufacturing overheads such as research and development and to strengthen their competitiveness at home as well as in foreign markets. Underlying, the conscious impulse of a firm's entry into foreign markets is the prospect of profit on investment.

Within the broader spectrum of necessities for investing elsewhere other than the home countries, major pulp and paper firms have invested in both developed and developing markets. However, most of their investments are in the developed countries and the method of entry differs significantly between developed and developing countries.

Entry Characteristics of the Selected Firms

A foreign market entry mode refers to an institutional arrangement associated with an investment by a firm in a foreign country. Firms may enter a foreign country either by direct investment in new facilities (internal growth) or by the acquisition of existing facilities (external growth). Foreign firms may establish complete (100%) control of a subsidiary, majority control or participate in the same firm of joint venture involving partners who may be local firms, governments or other foreign firms. Variations in such entry characteristics have important implications for development.

Despite the variation in the characteristics of these two basic types of entry modes/methods, the objectives of firms seeking entry are similar at one level, that is to gain economic benefits. In order to accrue such benefits, firms make choices of entry mode which is influenced by different external and internal factors.

As stated in the previous chapter, most of the selected companies have invested in Canada, Western Europe and the developing countries of Brazil, Chile, Mexico, Colombia, Venezuela, Indonesia, Malaysia and others for several reasons. The demand and supply conditions of both raw material and finished products all over the globe provided an impetus to the selected firms for geographical diversification. To some extent versatility of their brand name products across the world influenced the entry into these countries. This was perhaps the case with Scott Paper Co. and Kimberly-Clark. These two firms are known for their specialization on household and sanitary paper grades. Thus, the choice of entry mode reflects the strategic goals of the firms. For Scott Paper and Kimberly-Clark, for example, an important goal of internationalization has been to increase market share.

Developed-developing Country Distinctions

Table 4.1 shows the percentage distribution of the entry characteristics of the six selected firms with respect to 75 investments made in foreign countries. Variations in the mode of entry are demonstrated.

A majority of the entries by the case study firms in the developing countries involved investment in new facilities which were wholly owned or majority controlled. Another five entries involved new facilities but as part of joint venture. The selected firms have followed a different strategy of entry to the developed countries, however. The majority of entries, in this case, were acquisition followed by joint ventures. And, only 12.5 percent of the total entries involved direct investment in new facilities (Table 4.1).

Table 4.1: Distribution of Mode/ Method of Entry by Selected Firm by Regions.

Entry Mode	Developed	Developing	Total
Acquisition	27 (67.50)	9 (25.71)	36 (48.00)
Wholly-owned facilities	5 (12.50)	21 (60.00)	26 (34.67)
Joint Venture	8 (20.00)	5 (14.29)	13 (17.33)
Total	40	35	75

$\chi^2 = 19.17$ $df = 2$ $\alpha = 0.05$

Figures in parentheses represents percentage.

Source: Tables 5.3; 5.6; 5.8; 5.9; 5.11 and 5.14.

The value of chi-square (χ^2) of Table 4.1 at 0.05 level of significance with 2 degrees of freedom suggests significant differences of methods of entries between developed and developing countries by the selected firms. This difference reveals the fact that a significant number of FDI in developing regions are perhaps of the 'pioneering' sort by the selected firms. Since investment in developing countries is typically considered to be relatively risky by foreign firms, investment in new facilities implies lack of opportunities for acquisition, host country regulations, or a specific corporate need. It is therefore not surprising that joint ventures should be relatively more important in developing countries.

If investments in wholly owned new facilities and joint ventures are combined the difference in entry characteristics between developed and developing countries remains. In particular, acquisitions is the dominant entry characteristics in the former and investment in new facilities in the latter (Table 4.1).

It is also evident from Table 4.1 that entry mechanisms are characterized by a process of acquisition both in the developed and developing market economies if we combine the occurrences for both regions. However, in developing regions alone, acquisition merely totalled 28 per cent of the total number of FDI by selected firms. Whereas, the acquisition entry in developed regions accounts for about 70 percent. Generally, the underlying reason for acquisition is that the investing firm gets already established plants and equipment. Hence, it incurs very little immediate capital investment on machinery, equipment and also human resources. Further, it provides the firm an easy access to already established sources of raw material and to markets for the products. In the case of the selected firms, the preponderance of acquisition thus appears to reflect the corporate desire to reduce the spatial cost and uncertainties associated with establishing operations in an unfamiliar environment (Hayter, 1981). While acquiring facilities abroad, the selected firms have deliberately followed this strategy in order to reduce the uncertainties and spatial barriers.

Period-wise Entry

The selected firms started investing in both developed and developing countries at least by the 1950s. Since then, they have steadily acquired or invested in new facilities or joint-venture projects. Table 4.2 shows the cumulative number of FDI start-ups by the selected firms.

Table 4.2: Distribution of Period-wise Cumulative Number of Entries by Regions

Period	Developed		Developing	
	No of FDI	Cum. No	No of FDI	Cum.No
1951-54	4	4 (10.0)	1	1 (2.9)
1955-59	11	15 (37.5)	5	6 (17.1)
1960-64	13	28 (70.0)	10	16 (45.7)
1965-69	5	33 (82.5)	6	22 (62.9)
1970-74	4	37 (92.5)	5	27 (77.1)
1975-79	2	39 (97.5)	6	33 (94.2)
1980-85	1	40 (100.0)	1	34 (97.1)
1985-89	0	40(100.0)	1	35 (100.0)

Figures in parentheses represents cumulative percentage.

Source: Tables 5.3; 5.6; 5.8; 5.9; 5.11 and 5.14.

Most of the entries in the developed regions occurred between 1955 and 1964. During the 1970s and early 1980s the number of FDIs in developed countries declined.

Whereas in developing regions, most of the entries occurred during the 1960s although a somewhat steady growth occurred afterwards. Table 4.2 also shows that after 1965 developing regions became increasingly important as the developed countries for the selected firms. It is also in the same period that both 'Canadian' and 'Brazilian' phases overlapped. However, the value of chi-square (χ^2) of Table 4.3 at 0.05 level of significance with 1 degree of freedom suggest significant differences in the number of entries between developed and developing regions between the phases, thus suggesting the validity of this distinction.

Table 4.3 : Distribution of Number of Entries by Regions and Phases

Phases/ Year	Developed	Developing	Total
Canadian Phase 1951-69	33	22	56
Brazilian Phase 1970-89	7	13	20
Total	40	25	75

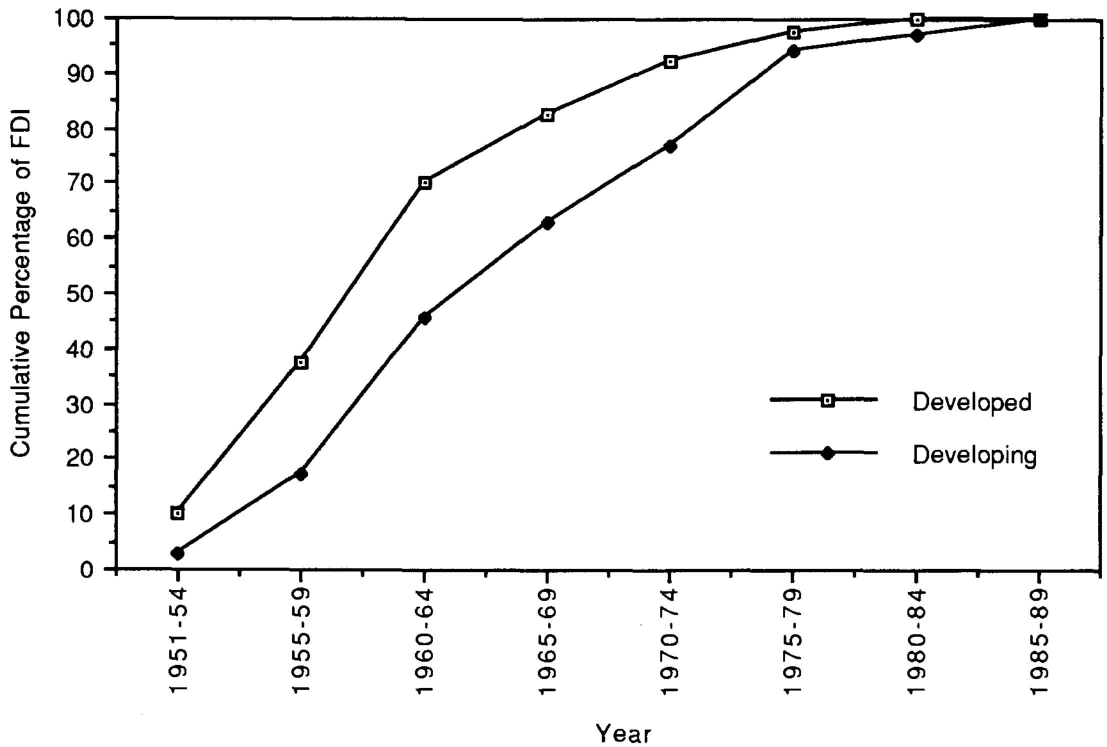
$\chi^2 = 4.28$ $df = 1$ $\alpha = 0.05$

Source: Table 4.2.

Implicitly, the growing demand and supply of pulp and paper as experienced globally during these periods have implications for such increase in the number of FDI.

Both demand and supply registered steady, sharp and an unstable conditions since 1950s and onward.[1]

Figure 4.1: Cumulative Percentage Growth of FDI Entries by Regions, 1951-54 to 1985-89



Therefore, it can be stated from Table 4.3 that the global economic crisis during 1970s and early 1980s has had a bearing on the levels of FDI. The restructuring and recovery of the global economy during mid 1980s has significantly influenced the increase in the number of FDI by the selected firms (Figure 4.1).

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[1]see Chapter III. Also see Ofori-Amoah (1989) for further detail.

Ownership Characteristics

The ownership characteristics at the time of entry are also indicative of the aspects of the orientation of the firms which not only relate to the actual exercise of control but also are likely to have significant spatial repercussions quite apart from the issue of control itself. It is apparent from Table 4.1 that a *de facto* transfer of control from the acquired to the acquiring firms has taken place. This pattern of ownership and control varies between different regions of the selected firms' operations.

Table 4.4: Distribution of Ownership Characteristics at Entry by Regions.

Ownership Category	Developed	Developing	Total
<50 %	2 (5.0)	4 (11.4)	7 (9.3)
50-75 %	13 (32.5)	12 (34.3)	25 (32.3)
75% +	25(62.5)	19 (54.3)	44 (58.4)
Total	40	35	75

$\chi^2 = 1.19$ $df = 2$ $\alpha = 0.05$

Figures in parenthesis represents percentage.

Source: Tables 5.3; 5.6; 5.8; 5.9; 5.11 and 5.14.

Table 4.4 indicates that although there were significant differences in the method of entry to developed and developing countries, there was no significant variation in the extent of control between both regions. The majority of the FDI in the developing regions of the selected firms were in the third, 34.3 per cent second, 11.4 per cent third categories of ownership at the time of entry. A similar trend was also found in the case of developed regions. This trend is also statistically supported by the value [at 0.05 percent level of significance with 2 degrees of freedom] of the chi-square (χ^2) of Table 4.4.

The above evidence suggest that the U.S. based multinational firms prefer majority control over their overseas subsidiaries, which obviously gives potentially absolute control on their foreign operations (Dicken, 1976). Those with a minority control status (< 50% ownership status), may have other indirect forms of control. The management and technical agreements for managing and maintenance of the projects offers these apparently minority controlled FDI projects provides an indirect form of control.

Changes in Entry Characteristics

The selected firms for this study have responded to the ever changing situations in both host countries and international markets. This has resulted in the continuous adjustments in their investments in terms of ownership, product and market orientation and expansion of the existing facilities. In the course of these adjustments, an interesting question is the extent to which the selected firms have had to bargain with host governments should enjoy an increase in bargaining power, at least according to the obsolescing bargain hypothesis. Therefore, in this section we would analyze these aspects of changes that occurred ever since the FDI projects were set up.

Ownership change

Changes in the ownership characteristics are significant for two reasons. First, changes in ownership have implications for profit flow. Second, ownership change have implications for control and implementation of corporate strategy.

Table 4.5 shows ownership changes of the 65 FDI of the six selected pulp and paper firms in the countries of the developing and developed regions. Table 4.5 show that a significant change has occurred in the first and second categories of ownership. The number of FDIs in the first ownership category has increased where as the number in the second category of ownership decreased substantially over the years since the start-ups. The number of FDI in the third category of ownership remained stable. In the developed regions, the third category has increased considerably and the first and second categories have become less important.

Table 4.5: Distribution of Changes in the Ownership Structure by Regions.

Ownership Category	Developed		Developing	
	At Entry	Post-Entry	At Entry	Post-Entry
< 50%	2	1	4	8
50 - 75%	13	7	12	5
75% +	25	25	19	18
Total	40	33	35	31

Source: Table 4.3 and Tables 5.3; 5.6; 5.8; 5.9; 5.11 and 5.14.

Note: in developed countries 7 out of 40 FDIs were either divested or sold; in developing countries 4 out of 35 were also sold.

In all, 4 out of 35 FDI of the selected firms in the developing countries of Latin America and South-east Asia have been sold entirely to the host governments or to the general public of the host countries. Scott Paper sold its Filipino subsidiary in 1986 to local firms. Weyerhaeuser sold its Indonesian affiliates in 1981 to the Indonesian public. 7 out of 40 FDIs in the developed regions have been sold entirely by the selected firms. These include the divestiture of Champion International's Belgian affiliates in 1977, the liquidation of Scott Paper's Scott-Canadian Timberlands and sales of the entire control of BCFP in British Columbia to Fletcher Challenge of New Zealand. And, International Paper sold its Canadian subsidiary in 1981 to Canadian Pacific.[2]

The reasons for these changes have not been readily apparent from the available company annual reports and Moody's industrial manual. However, it has been reported that the significant change in the ownership and control, except for those operations which are sold out, has occurred in order to reduce the 'consolidation' of the affiliates and subsidiaries (Moody's 1989). Also, the need for financing the existing and new facilities in the U.S. led to divestment of these overseas operations. For example, International Paper sold Canadian International (at a price of 1.1 billion dollars) in order to provide the cash necessary to modernize its American facilities.

This shift in ownership pattern indicates a small tendency towards local participation and a slightly decreasing level in the extent of foreign control of pulp and paper industry of Latin American and South-east Asian countries. This provides a limited support for the obsolescing bargain hypothesis. However, we could not draw any conclusion about the definite pattern of shift that took place in the ownership structure, because a firm or firms may control operations' *de facto* even if it holds less than 50 per

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[2]see Chapter V for more detail.

cent of the equity because much depends upon how dispersed or concentrated is the remaining equity capital (Dicken, 1976). As we are not sure about the remaining portion that is the sold portion of the ownership of FDIs by the six selected firms, any comment on the extent of control using the trend of increase in 50 per cent or less ownership category would be more than likely to underestimate the reality.

Summary

The purpose of this chapter was to document the entry and post-entry characteristics of the international operations by the selected six firms. The global characteristics of the industry in general and in particular, the organization structure of the industry had an implication for the entry criterion and methods followed by the selected firms. These are manifested in the ways multinational pulp and paper firms established their operations outside their country of origin. A significant number of acquisition and joint venture entries also occurred. Whereas, the selected firms have followed a strategy of entry to the developed countries, in which case, the majority of entry were acquisition followed by joint ventures and direct investment, they followed a different strategy of entry to the developing countries. The direct investment or establishment of wholly-owned facililities were found to be a dominant strategy of entry to the developing countries. However, a clear dominance of acquisitions and joint venture entries by the selected firms was found in both developing and developed market economies. This suggests the corporate desire to reduce the spatial cost and uncertainties associated with establishing operations in an unfamiliar environment.

The ownership characteristics at the time of entry revealed the aspects of the orientation of the selected firms. This not only relate to the actual exercise of control but also has significant spatial repercussions quite apart from the issue of control itself. It appeared that a *de facto* transfer of control from the acquired to the acquiring firms has taken place. Despite a significant difference in the method of entry to developed and developing economies, relatively insignificant variations in the exercise of control and ownership were found.

There has been a substantial change in the ownership pattern of the foreign operation of the six selected firms. In the developing countries, the number of FDIs in the first ownership category (<50% ownership) has increased where as the number in the second category (50-75%) of ownership decreased substantially over the years since the start-up. The number of FDI in the third category of ownership remained stable. In the developed regions, the third category has increased considerably and first and second categories decreased. In all, six foreign operations, two in developing and four in developed countries have been sold entirely to the host counterparts or to the general public of the host countries.

CHAPTER V

Corporate Strategies and International Expansion of the Selected Firms

The behavior of large firms is guided by their strategies. In order to survive in the market place, these firms adopt various strategies to problems of internal control and coordination and also to external constraints such as market saturation, substitution of new products, changing consumer demands as well as entry by rivals. The investment decisions are thus constrained by the nature of the firm's accumulated resources in relation to projections about relevant environment trends. Poor growth prospects within an industry or region encourage firms to diversify their existing operations and to abandon advantages such as the economies to be gained from expansions which result in a higher utilization of existing facilities and functions. And, international growth or expansion beyond the boundaries of their country of origin are implemented via strategies related to their entry advantages. The international expansion strategies are thus perceived as coherent and internally rational bundles of linked decisions that are distinguished by particular goals, preferences and priorities of large firms.

This chapter is devoted to identifying the strategies employed by the selected firms in the various segments of the industry and in the international expansion of these segments. In particular, it examines the corporate strategies of the selected six American pulp and paper firms. These firms represent major players in the industry both inside and outside the United States and are representative of broader trends pertaining to FDI by American pulp and paper firms. At the same time, these firms reveal distinctive elements in their corporate strategies, market and product orientation. In this chapter individual corporate profiles and the patterns of corporate growth in terms of spatial expansion for all six selected firms - the Champion International, International Paper, Kimberly-Clark, Scott Paper, Westvaco and Weyerhaeuser - are reviewed in order to provide an appropriate context to extend our understanding of FDI. The information for this chapter is drawn from company annual reports and Moody's Industrial Manuals.

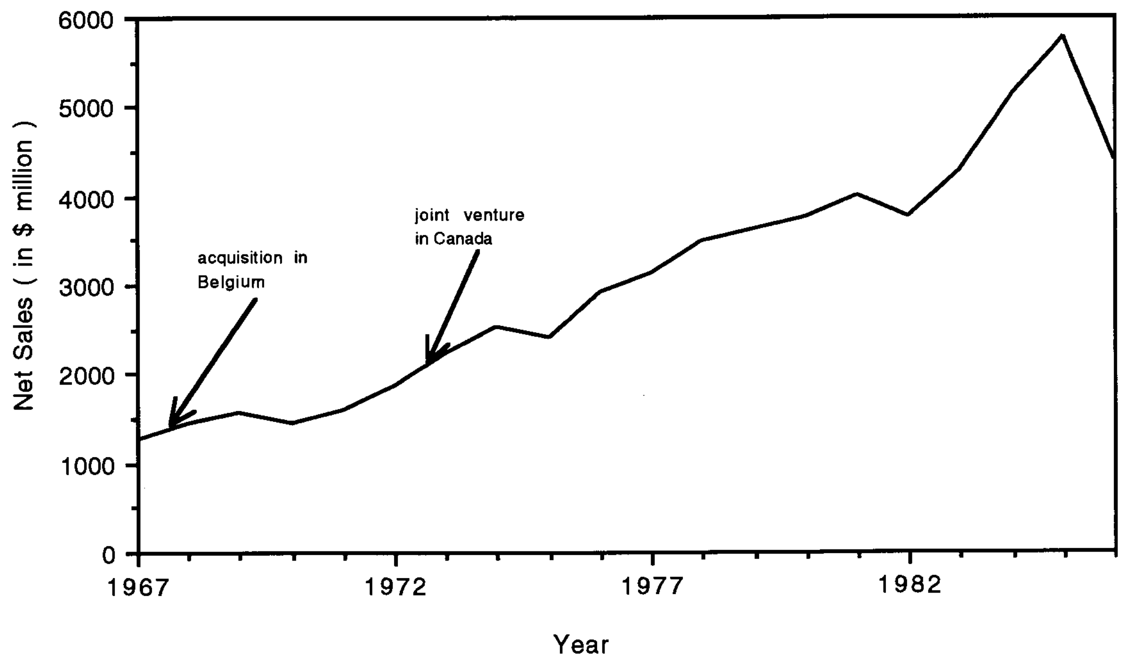
Champion International Corporation

Origins and Profile

Champion International was incorporated as the U.S. Plywood Corporation, a consolidation of United States Plywood Company Inc., U.S. Plywood Co. Inc. of Delaware and Aircraft Plywood Co. in 1937. The name was changed to U.S. Plywood Champion Papers Inc. and merged with Champion Papers Inc. in 1967. The corporate name was subsequently changed to Champion International Corporation in 1972. Its head office is in Stamford, Connecticut. The U.S. Plywood Corporation had expanded its operations, including into Canada, and had achieved a limited integration before its merger with Champion whose operations at that time were in the pulp and paper sector. Champion International is now a well integrated forest product firm and a major manufacturer and distributor of building products, paper products, and packaging materials. The firm currently has manufacturing operations in the U.S., Canada and Brazil.

By the mid 1980s, Champion achieved 6 per cent of the U.S. bleached paperboard capacity. For this relatively concentrated segment of the pulp and paper industry [the top ten producers have 91 per cent capacity in the U.S.], the firm expects sales will continue to be strong, since bleached paperboard is heavily utilized for food packaging. In linerboard production capacity, Champion ranked fifth in the United States. Although the demand for linerboard has been depressed in the past due to world overcapacity and lowered industrial activity in the 1980-82 recession, Champion expects profitability in this product range as industrial demand for packaging and boxes has improved following the recession. Champion also ranked sixth in the U.S. in corrugating medium capacity, with most of its liner and corrugating medium going to its own box plants. About 19 per cent of Champion's sales were in packaging, including boxes and corrugated materials.

Figure 5.1: Net Sales of Champion International Corporation, 1967-1986
(in $ million)



Source: Company Annual Reports and Moody's Industrial Manuals.

The development path, as represented by net sales and investment profiles for the period of 1967 to 1986, is shown in figure 5.1. Champion experienced a steady increase in the net sales volume during 1967-1973 and a decline in 1974. Net sales was increased again in 1975 and continued to expand steadily up to the year 1980-81. During 1981-82, net sales dropped and then increased in 1982-83. The decline in sales volume in 1974 and 1981-83 were associated with the down-turn in the global economy due to the economic recession in the advanced industrialized countries. However, the negative impact of recessionary pressure did not last long as the firm initiated various counter measures, as mentioned earlier.

Domestic Expansion

The firm originated as U.S. Plywood Corporation in 1937 and soon began to expand its operations, acquiring Alogma Plywood and Veneer Co. and Hamilton Veneer Co. in 1940. These acquisition were followed by the acquisition of Tekwood Inc., a small wood processing firm in Lakeport, New Hampshire in 1942. Its total plywood output capacity was now substantial and the firm had also established 15 warehousing and distributing facilities which were operated by an adjunct company, U.S. Mengel Plywoods, Inc. at Louisville, Kentucky.

The domestic expansion of the firm from 1945 to 1966 as shown in Table 5.1 reveals that the firm's domestic expansions were made through acquisitions. The firm acquired a number of sawn timber, plywood, hardwood veneer and lumber firms between 1945 and 1966. It acquired one sawn timber and a plywood firm in 1945 and did not acquire any until 1954. These acquisitions of plywood and timber firms in 1945 led to the formation of its subsidiary U.S. Plywood Export Corporation in 1952. The firm acquired a plywood and a box producing firm in 1954. The acquisition of this firm provided the U.S. Plywood Corporation an opportunity to diversify its operation in the box production sector. It acquired another plywood firm in 1958 and in the following year a lumber company. During 1960-1966, the firm continued its strategy of expansion through acquisition and acquired two plywood, two lumber, one hardwood timber, one different wood products and a wood protection products manufacturing firms (Table 5.1).

Table 5.1 Domestic Expansion of Champion International (Previously U.S. Plywood Corporation) 1945-1966

Year	Location & Product	Method of Entry	Company Acquired
1945	Oregon State, plywood	acquisition	Siuslaw Forest Products
1946	Washington State, sawn timber	acquisition	Seattle Export Lumber Co.
1954	California State, plywood and Box	acquisition	Associated Plywood Mills Shasta Box Co.
1956	Oregon State, sawn timber	acquisition	North Umpqua Timber Co.
1958	California State, plywood	acquisition	Mutual Plywood Corp.
1959	California State, lumber	acquisition $7.5 million	Walker Logging Co.
1960	California State, plywood	acquisition	Berkley Plywood Co.
	Oregon State, lumber	acquisition of 50% interest	Bohemia Lumber Co.
	Washington State, panelboard	acquisition	Panelboard Systems, Inc.
1962	Oregon State, plywood	acquisition $20 million	Cascade Plywood Corp.
	Michigan State, wood protection	acquisition	Protection Products Mfg. Co.
1963	California State, lumber	acquisition $41 million	McCloud River Lumber Co.
1965	Kentucky State, wood products	acquisition	Mengel Wood Industries Ltd.
	New York State, hardwood veneers	acquisition	Adinorak Plywood Corp.
1966	Oregon State, lumber	acquisition $8 million	Edward Hines Lumber Co

Source: Moody's Industrial Manuals, 1967, 1976, 1986 and 1990.

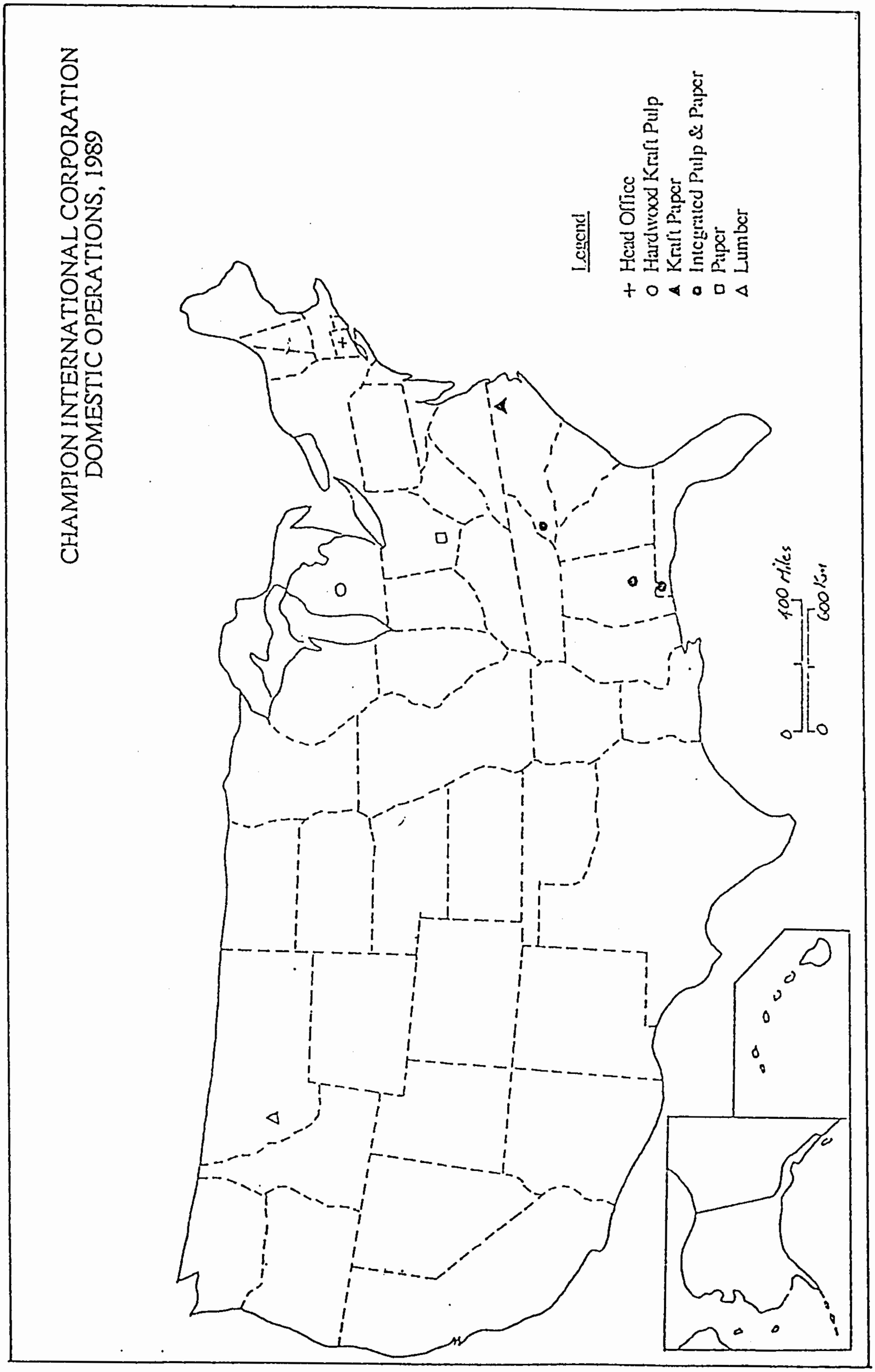

CHAMPION INTERNATIONAL CORPORATION
DOMESTIC OPERATIONS, 1989
Legend
+ Head Office
o Hardwood Kraft Pulp
Kraft Paper
Integrated Pulp & Paper
Paper
Lumber
0
400 Miles
0
600 Km

Figure 5.2

Table 5.1 also reveals that the firm relied on the strategy of horizontal integration by geographical diversification to the West. In 1945, the firm expanded its operations in the states of Oregon and Washington. In the 1950s, the firm continued its expansions in the west and all expansions via acquisition in this period were concentrated only in California State. In the early 1960s, the firm also penetrated in the the west especially in the state of Oregon and California with exception of the acquisition of a wood protection product plant in the Michigan State. In the mid 1960s, however, the firm looked for expansion opportunities in Louisville, Kentucky State and in Tuper Lake of New York State. The Tupper Lake firm was a manufacturer of rotary hardwood veneers and the operation was discontinued in 1970.

Therefore, before its merger with Champion Papers Inc. in 1967, US Plywood was a horizontally integrated plywood firm with some interest in lumber. Throughout its 30 years history, it pursued a strategy to expand its operations geographically from Kentucky and the Northeast to the states of Washington, Oregon and California (Figure 5.2). This geographical expansion, in most cases, was achieved through acquisition of small and medium sized plywood and lumber firms.

The merger between US Plywood and Champion Papers, as described by Smith (1970), had a rocky road after its consummation. The US Plywood Corporation was lost within the organizational structure of Champion Papers. However, the merger in 1967 contributed most to the size of the reorganized firm, Champion International Corporation. The firm obtained its paper division which manufactures and distributes pulp, paper and paperboards from the previous Champion Papers. Currently, its pulp and paper production facilities are located at Canton, North Carolina; Courtland, Alabama which was constructed in 1968; Penascola, Florida and paper mills at Hamilton, Ohio (Figure 5.2). These mills have an annual production capacity of 1,566,000 tons of pulp and 1,759,000 tons of printing and writing papers. In addition, the firm manufactures newsprint which is supplied internally with pulp. Its converting facilities are located at Piqua and Weynesville, North Carolina.

Champion International presently manufactures bleached hardwood kraft pulp at its Quinnesec, Michigan mill which has an annual capacity of approximately 340,000 tons per year. In North Carolina, it operates an unbleached kraft paper mill at Roanoke Rapids which has an annual capacity of 321000 tons of linerboard and 172 tons of kraft paper production.

The above domestic expansion in both geographical location and product category helped Champion International to become known as a well integrated pulp and paper firm and in 1989 about 78 percent of its total sales income were generated from the paper sector (Table 5.2). This was achieved through vertical integration both backward and forward as well as by horizontal integration. An essential aspect of these integration strategies is the firms' control by outright ownership and lease of extensive timber rights, amounting to about three million acres of timberland rights which provides 45 percent of its fibre needs

Table 5.2: Percentage Distribution of Net Sales by Commodity, 1989.

Product/business	Percentage
Papers	78.2
Wood products	21.8

Source: Moody's Industrial Manual, 1990.

for its various paper mills, wood-processing plants and saw mills, and converting plants. Also, recent capital expenditures are said to have trimmed unit operating costs and increased vertical integration (Arpan et. al., 1986).

International Expansion

Champion International began its foreign operation in the fifties before merger with U.S. Plywood by directly investing in a pulp mill in Hinton, Alberta, Canada which started production in 1957 (Table 5.3). This investment was therefore part of the Canadian phase of the internationalization of the forest product industry as a whole. At this time, many U.S. based forest product companies saw Canada and its vast forest resource potential as a promising one. The availability of basic requirements of wood supply, water supply and transportation have influenced the location decision of the mill (see Ironside, 1970). Also before the Hinton Mill, the former U.S. Plywood Corporation formed its Canadian subsidiary, U.S. Plywood of Canada, in 1945. This subsidiary acquired all the capital stock of Hay & Co. in the same year and later purchased assets and business of Muskika Wood Products Ltd at Huntsville, Ontario in 1955. In the early 1960s, the firm acquired Western Plywood Co. Ltd and its opertaions in Vancouver area in 1961 for $1.3 million cash. This later become integrated with its subsidiary Weldwood which was incorporated in 1964. This was followed by the acquisition of all of the shares of British Columbia Forest Products Ltd (BCFP) and formed the Cariboo Pulp & Paper Co which built a kraft pulp mill at Quesnel, B.C.. In 1965, Weldwood acquired Northern Studs Ltd and its plywood plant at Lac La Hache, Ontario. The shares of BCFP were sold in 1967. However, Weldwood of Canada secured rights over 2461000 acres of timberlands which supplies most of the wood requirements.

Table 5.3: International Expansion of Champion International Corporation, 1957-1969

Year	Location/ Company	Mode/Method of Entry	Ownership at Entry	Product Orientation	Market	Access to Timber Resources	Present Status
1957	Hinton, Alberta, Canada Canada	Direct	100%	Pulp, Printing Papers	Domestic/ Foreign	X	100% ownership
1961	Vancouver, B.C., Canada Western Plywood Ltd.	Acquisition	100%	Plywood	,,	X	100% ownership
1963	Brazil Champion Papel e Celulose	Direct	91.60%	Pulp & Paper	,,	X	99% ownership
1964	Quesnel, B.C., Canada Cariboo Pulp & Paper	Direct		Pulp & Paper	,,	X	73% ownership under Weldwood
1967	Belgium Intermills, S.A.	Acquisition	57.60%	All paper grades	Domestic	N/a	Divested in 1977
1969	Quesnel, B.C., Canada Welwood of Canada Ltd.	Joint Venture	50%	Bleached Kraft Pulp	Domestic/ Foreign	X	50% ownership

Note: N/a information not available

X owns and/or control significant timberlands

Source: Compiled from Corporate Annual Reports and Moody's Industrial Manuals.

Champion could not start another foreign operation until 1963. This is perhaps because of the fact that the firm was extensively engaged in domestic expansion during the late 1950s and the eraly 1960s. In 1963, Champion directly invested in an integrated pulp and paper mill in Brazil. This investment by Champion outside of North America may be interpreted as the beginning of the end of the Canadian phase of internationationalization. In Brazil, Champion also emphasized the need to secure timber supplies and its subsidiary, Champion Papel e Celulose, acquired the right of ownership or control of about 220231 acres of timberlands in the State of Sao Paulo.

In 1967, Champion acquired an all paper grade manufacturing establishment in Belgium at an approximate cost of 3.2 million dollars. This was followed by a joint venture in Quesnel, B.C., Canada in 1969 by its 73 percent owned subsidiary Weldwood of Canada. This joint-venture market pulp mill at Quesnel, B.C. is a low cost producer of bleached pulp. Half of the mills output is marketed by the Japanese partner in this joint venture Daishowa-Marubenni. The remainder is sold mainly in the open market. This mill utilizes chips and 'waste' material supplied by local saw mills and plywood mills, including those which Weldwood owns.

Champion Papel e Celulose located in the state of Sao Paulo, Brazil produces bleached pulp and fine paper. By 1983 sales and operating results were ahead of previous years even with an unfavorable change in Brazilian tax laws. As a result, the subsidiary took an estimated $60 million expansion plan and constructed a fifth paper machine at the mill which begun production in 1985. This expansion made it possible to produce uncoated white paper for both the Brazilian and export market. Its annual pulp capacity rose to approximately 315000 tons and annual paper capacity to approximately 370000 tons by 1989. As a result, the net annual sales also rose to 311 million dollars most of which were generated from export.

From the above examples of international expansion, it can argued that Champion International pursued both vertical as well as horizontal integration strategies. It had operations in three foreign countries. These were Canada, Belgium and Brazil. However, after the divestment of a paper producing subsidiary in Belgium during the late seventies has reduced its international scope (Table 5.3). The international expansion, for the most part, also linked with the firms' domestic expansion. This is especially true in the 1950s and the 1960s when the firm experienced geographical expansion both in the U.S. and Canada.

Despite its withdrawal from Belgium as was mentioned earlier, Champion has expanded its other foreign subsidiaries. For example, the manufacturing facilities in Canada experienced a notable increase in pulp production from 117898 short tons to 141061 in 1983. In Brazil, pulp production rose slightly from 244640 short tons in 1980 to 253868 in 1983 and paper production from 215054 short tons in 1981 to 218249 short tons.

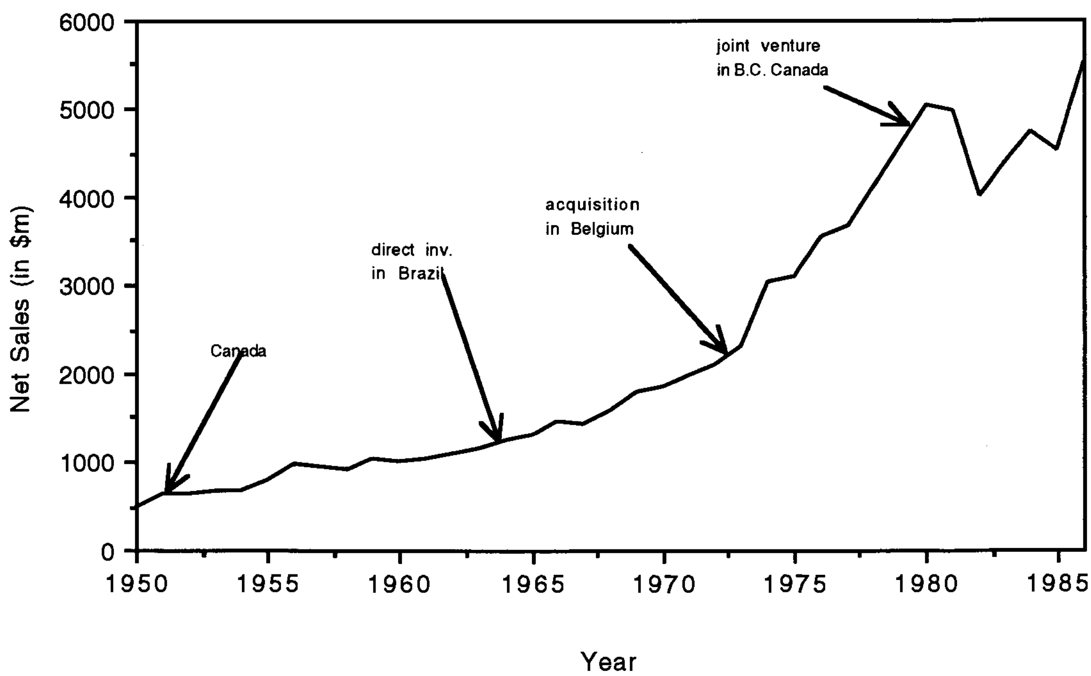
International Paper Company

Origins and Profile

International Paper Ltd. was incorporated in New York in 1941 but began as International Paper and Power Co. which was incorporated in 1898. Therefore, the company has a long tradition of paper making and is presently, the largest single paper manufacturer in the world, with 1986 sales of approximately $ 6000 million, 84 per cent of which were generated in pulp, paper, and converted products. International Paper produces a wide variety of types of paper and paperboard as well as solid wood products, market pulp, and converted paper products at different locations.

International Paper is now a leader in various segments of the industry. Its capacity in bleached paperboard totals 23.5 percent of the total U.S. capacity, its coated groundwood and publishing paper 14.9 percent of the U.S. total, and its linerboard capacity 10.1 percent of the U.S. total. The firm is also a leader in corrugating medium, ranking third in total U.S. capacity (7.4 per cent of total) while in uncoated printing and writing papers the firm accounts for 7.5 percent of U.S. total capacity. International Paper is also a significant producer of market pulp.

Figure 5.3: Net Sales of International Paper Company, 1950-1986
(in $ million)



The development path as represented by the net sales and major capital expenditures is shown in Figure 5.3. This shows that International Paper has experienced a steady increase in the net sales volume from 1950 to 1980. Sales then declined during the recession of the early 1980s but have since grow again.

Domestic Expansion

The history of domestic expansion of International Paper Company goes back to the late 19th century when it was incorporated as International Power and Paper Company in 1898. International Power and Paper Company formed its subsidiary Continental Paper & Bag Corporation in 1928 to take over the assets and liabilities of Continental Paper & Bag Mills Corporation. In 1931, its subsidiary LaSalle Paper Corporation acquired the plant and equipment and assumed a bonded debt of approximately $2,000,000 of Twanda Paper Co. from the Chicago Tribune. During the same year, Seminole Paper Co. of Chicago was acquired.

The above acquisitions have substantially increased the size of the International Power and Paper Company. However, the Continental Paper & Bag Corporation was dissolved in 1936 as it suffered bankruptcy. Following the dissolvement, International Power and Paper Company did not acquire or invest in new facilities till 1940 when it acquired the entire capital stock of Agar Manufacturing Company. With this acquisition, the company established its right over Agar Manufacturing Company's three wholly-owned subsidiaries and four shipping container plants at Whippany, New Jersey; Sommerville, Massachusetts; Chicago, Illinois and at Kansas City, Kansas (Figure 5.4). These four plants had an aggregate capacity of producing 150,000 tons of shipping containers. In the following year, the firm changed the corporate name to International Paper Company.

Having its corporate head office located in Purchase, New York, International Paper began to pursue horizontal integration strategies and to diversify geographically.

Table 5.4 : Domestic Expansion of International Paper, 1940-1986

Year	Location & Product	Method of Entry	Company Acquired
1940	New Jersey, Massachusetts, Illinois & Kansas; Shipping containers	Acquisition	Agar Manufacturing Co.
1941	Southern States; Kraft board & Paper	Acquisition	Southern Kraft Corp.
1946	Pennsylvania, Michigan Milk-containers	Acquisition	Single Service Containers Inc
	Missouri; Shipping Containers	Acquisition	Scharff-Koken Mfg. Co.
1955	Pennsylvania; Specialty coated paper	Acquisition	A.M. Collins Mfg. Co.
	Pennsylvania; Folding cartons & labels	Acquisition	Lord Baltimore Press
	Ohio; Box and cartons	Acquisition	Taylor-Globe Corporation
1975	Arkansas; Lumber	Acquisition $ 18.5 million	Arkansas-Louisiana Gas Co. (also acquired General Crude Oil $489 million)
	Oregon ; Lumber	Acquisition $5.2 million	Coos Head Timber Co.
1986	Pennsylvania, New York, Massachusetts, Wisconsin, Virginia, Illinois, Ohio, Washington, California, Texas, North Carolina; Fine & Printing Papers, Ind. & Packaging, Converted Paper & other Forest Products	Acquisition $1.1 billion	Hammermill Paper Co.

Source: Company Annual Report & Moody's Industrial Manuals, 1967, 1976, 1986 and 1990

Table 5.4 shows the domestic expansion of the firm since 1941 which reveals its heavy reliance on the acquisition as a means to domestic expansion. In the 1940s, the firm expanded largely in the shipping container, kraft board and paper, and milk containers production business by acquiring a number of firms. Immediately after its incorporation, International Paper merged its wholly-owned subsidiary Southern Kraft Corporation which owned eight kraft board and paper mills in the Southern United States. After this merger, International Paper acquired four shipping containers and milk-containers manufacturing firms in the second halve of 1940s. In the 195Os, International Paper searched for opportunities in other sectors of the forest product industry. It acquired all capital stocks of a specialty paper manufacturing firm. The firm merged the Long-Bell Lumber Corporation into its corporate structure in 1956. This merger facilitated the integration of raw material sources with its production facilities. This was followed by the acquisition of the entire stock of a folding cartons and labels manufacturing firm which became a subsidiary and acquired another box and carton manufacturing firm. These examples of acquisition of a number of firms during 1940s and 1950s reveals that the firm limited its growth via acquisition in the forest product sector, mainly in the shipping container and corrugated medium only. However, the firm found interest in outside of the forest product sector in the 1970s. It acquired General Crude Oil Co for approximately $489,000,000 in cash and notes in 1975. Also in the same year, the firm acquired the forest-product business of Arkansas-Louisiana Gas Company for $18,500,000 and timber company for $5.2 million.

In the late 1970s, the firm had some financial troubles and sold its Panama City, Florida mill and 425,000 acres of timberland in Florida, Georgia and Alabama for 137 million in cash and $70 million preferred stock of Southwest Forest Industries, Inc.. The General Crude Oil Co. was sold to Mobile Oil Corporation for $ 802 million dollars and Atlanta & St. Andrews Bay Railway to Southwest Forest Industries, Inc. in the same year. At this time, it also acquired Bodlaw Co. for $805,000,000. In 1980, the firm sold

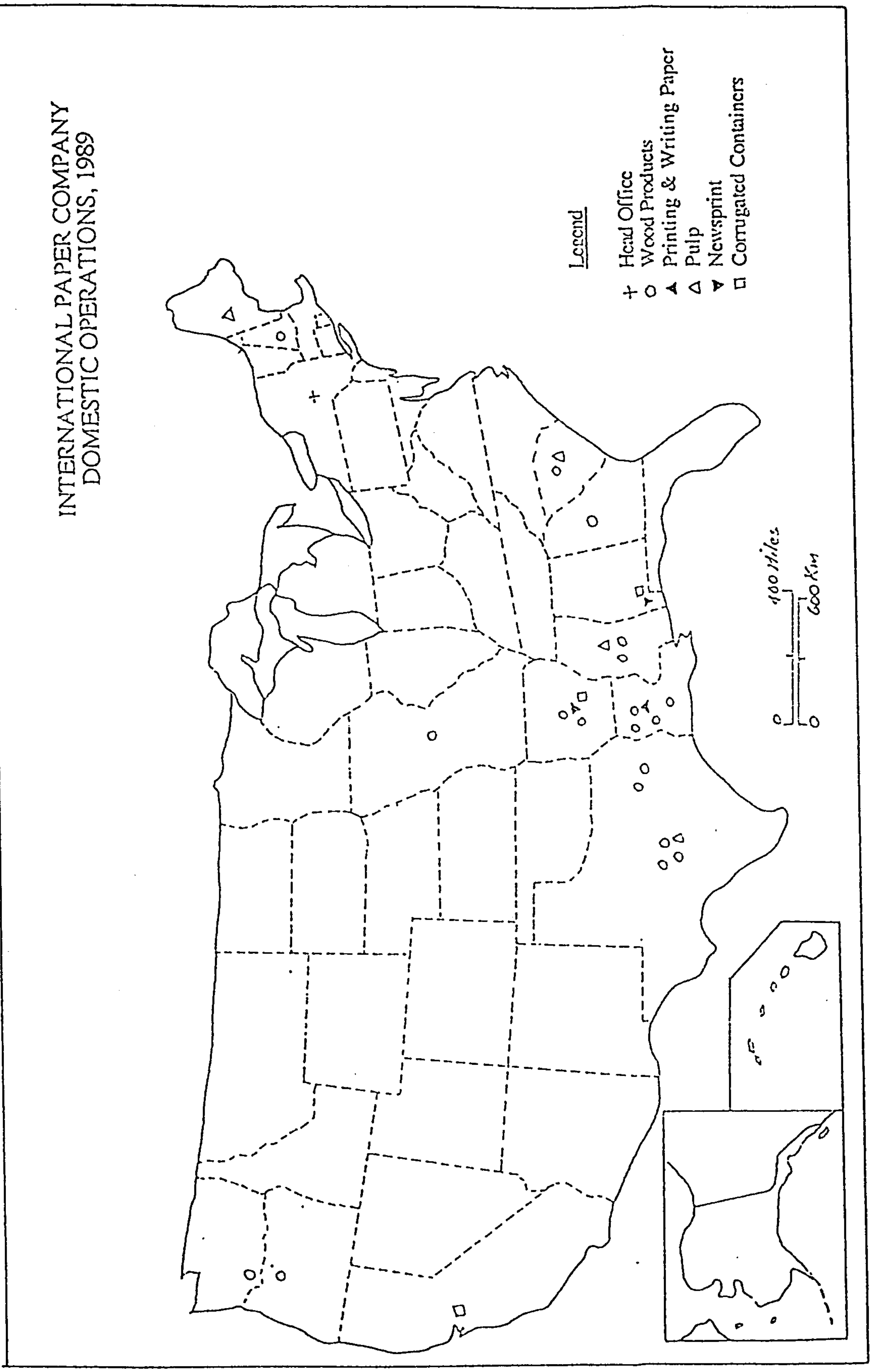

INTERNATIONAL PAPER COMPANY
DOMESTIC OPERATIONS, 1989
Legend
+ Head Office
○ Wood Products
▲ Printing & Writing Paper
△ Pulp
▼ Newsprint
□ Corrugated Containers
400 Miles
600 Km

Figure 5.4

International Stanley Corp. and Davol Inc. to C.R. Bard Inc. for $48 million. The company sold its credit subsidiary, International Paper Credit Corporation to E.F. Hutton, Inc. for $55 million in 1981. In the same year, it sold Facelle Company Limited and then its Canadian subsidiary for $1.1 billion.

The earnings from the above sales made it possible for International Paper Company to acquire 94 percent of Pennsylvania based firm, Hammermill Paper Co., at an estimated cost of $1.1 billion dollars in 1986. This allowed International Paper to diversify its operation to fine and printing papers and converted paper products business which was previously concentrated in the Kraft paper board, shipping containers, different types of boxes and specialty paper.

The above domestic expansion clearly reflects the persuation of specific corporate strategies. The firm has pursued horizontal strategies and vertical integration strategies all throughout its history.Table 5.4 also reveals that the firm mainly limited its geographical diversification in the southern and eastern United States with only exception of a lumber firm in Coos Head, Oregon State. However, the acquisition of Hammermill Paper Co in 1986 facilitated the geographical diversification further and even outside of the firm's geographical area. This acquisition made it possible to have a presence in the Pacific West Coast such as in the states of Washington and California.

The proportion of converted products (44%) to the total production in recent years show a heavy reliance on vertical forward integration strategy (Table 5.5). International Paper has the ownership or control of some seven million acres of timberland, which supplied 35 per cent of the company's total fiber requirements. However, its size did not protect the firm from the 1980-82 recession. Profits declined under pressure of lowered

Table 5.5: Percentage Distribution of Net Sales by Commodity, 1989.

Product Grades	Percentage of Total
Pulp and Paper	32.0
Converted Products	29.8
Wood products	10.5
Other	31.4

Note: Other includes specialty products and distribution business.
Source: Moody's Industrial Manual, 1990.

paper prices and lower operating rates maintained during the general economic downturn. International Paper's response was to shift to more profitable product lines by converting existing machines from basic commodity production to high value-added items. Through this strategy of conversion rather than purchase of new equipment, International Paper was able to face rising prices in 1983 with a much lower debt load and lower overhead costs than many competitors (Arpan et. al., 1986). Another strategy the company followed in order to reduce the reverse effect of recession was to do some selective business unit pruning, as seen in the sale of Canadian International Paper in 1981 and the divestiture of some forestlands in 1983.

International Expansion

International Paper's foreign operation dates back to early 1900 and presently some twenty percent of company's sales come from foreign operations. The international expansion over the last four decades can be divided into three distinct phases (Table 5.6). First, during 1950-59, its already existing (and large) Canadian subsidiary acquired the

Table 5.6: International Expansion of International Paper Corporation, 1954-1976

Year	Location/ Company	Mode/Method of Entry	Ownership at Entry	Product Orientation	Market	Access toTimber Resources	Present Status
1954	Toronto, Ont., Canada Brown Corporation	Acquisition	100%	Pulp	Domestic/ Foreign	N/a	CIP sold in 1981
1955	London, Ont., Canada Hygrade Containers	Acquisition	100%	Corrugated Containers	Domestic/ Foreign	N/a	,,
1958	Israel Cargal Ltd.	Acquisition	50%	Corrugated Shipping containers	Domestic	N/a	50% ownership
1959	Toronto, Ont., Canada Anglo American Paper Co.	Acquisition	100%	Paper Grades	Domestic/	N/a	CIP sold in 1981
1960	Ontario, Canada Hendershot Paper	Acquisition	95%	Corrugated Papers, Shipping Containers	Domestic	N/a	,,
1961	Canada Dominion Celulose Ltd.	Acquisition	100%	Pulp & Paper	Domestic/ Foreign	N/a	,,
1961	Cali, Colombia Productora de Papeles S.A.	Joint Venture	50%	Bleached Paper Grades	Domestic	N/a	50% ownership uses Sugarcane baggasse
1961	Caracas, Venezuela	Direct	100%	milk-container	Domestic	N/a	100% ownership

...cont'd on next page.

Year	Location/ Company	Mode/Method of Entry	Ownership at Entry	Product Orientation	Market	Access toTimber Resources	Present Status
1963	Mindanao, Philippines Paper Industry Corp.	Acquisition	10%	Pulp	Domestic	N/a	10% ownership
1974	Geneo, Italy Bowater Italia	Acquisition	100%	Corrugated Containers	Domestic	N/a	100% ownership
1974	Winsford, England Chambers Packaging	Acquisition	100%	Corrugated Containers	Domestic	N/a	International Paper Containers (UK) Ltd a subsidiary
1976	Japan IPI Corporation	Joint Venture	51%	PlasticCoated Milk Containers	Domestic	N/a	IPI Corporation 51% ownership

Note: N/a information not available
Source: Compiled from Corporate Annual Reports and Moody's Industrial Manuals.

full ownership of a pulp producer, Brown Corporation in Canada. In the following year, it acquired a corrugated container operation in London, Ontario. In 1958, the company acquired another corrugated shipping container mill in Israel, for the first time outside of North America. Its first decade of international expansion ended with acquisition of Anglo American Paper Co in Toronto, Ontario.

The second phase is characterized by the elements of both "Canadian" and "Brazilian" phases of the internationalization of the pulp and paper industry. Its Canadian subsidiary acquired the Hendershoot Paper Co in Ontario, Canada in 1960. In the following year, the Dominion Celulose Ltd. Canada, a pulp and paper producing concern. After successfully expanding operations in Canada, International Paper began to penetrate into the Latin American countries. This was partly due to the realization of the importance of the alternate source of raw materials and markets found there. This prompted the firm to invest in a joint venture bleached pulp operation in Cali, Colombia. This joint venture affiliate is known as Productora de Papeles S.A.. Also, during the early 1960s, the company invested in a wholly-owned milk container plant in Caracas, Venezuela after which no such international expansion took place for some time. In 1963, International Paper acquired 10 percent interest of the Paper Industry Corporation in the Philippines which has a large pulp mill in Mindanao. International Paper supplied the technical know-how to this Philipino mill. The Columbian affiliate PROPAL also had expansions during 1965 and built new paper machines. The Canadian subsidiary, Canadian International Paper also expanded its existing facilities and had gone through modernization of different plant in the late 1960s.

In the third phase, during the 1970s the firm acquired the corrugated container operations in Geneo, Italy and in Winsford, England. In 1976, it began a joint venture plastic coated milk container manufacturing plant in Japan. However, in 1981, as a part of its corporate restructuring and strategies to combat existing recessionary pressures, International Paper sold its Canadian subsidiary to a Montreal based firm Canadian Pacific at an estimated price of $ 1.1 billion. The income generated by the sale of Canadian subsidiary was used to diversify its own operations in the U.S.

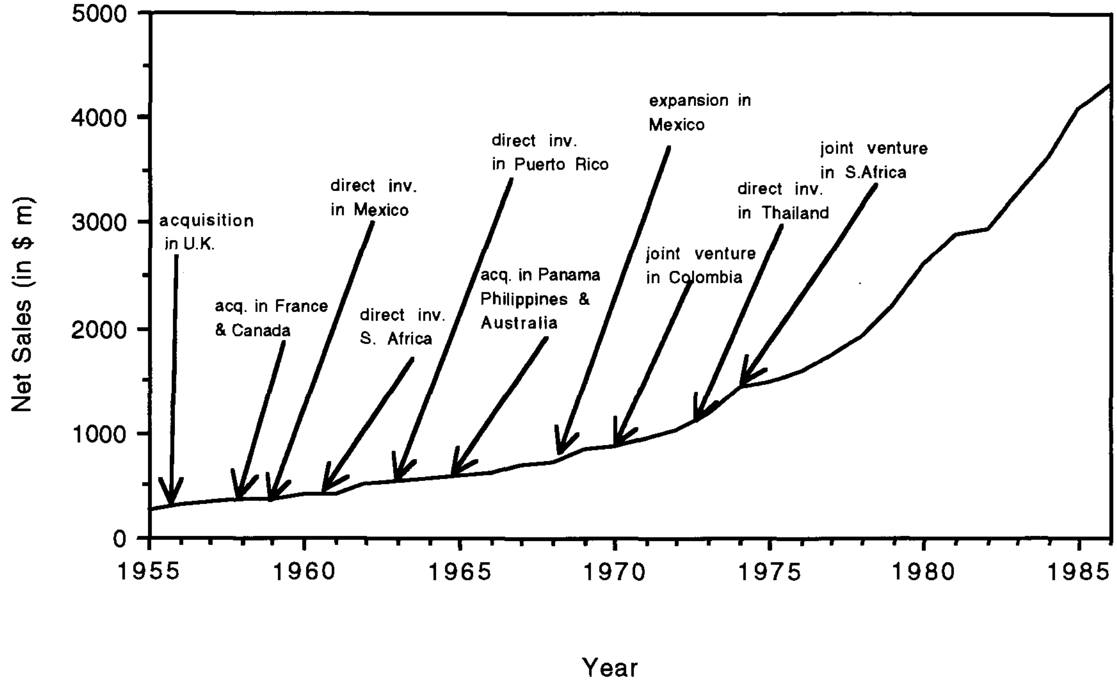
Kimberly-Clark Corporation

Origins and Profile

Kimberly-Clark Corporation was incorporated in 1928 in Delaware to acquire all the assets of Kimberly-Clark Co.(Wisconsin) and its wholly owned subsidiary Kimberly-Clark Corp. Inc. (N.Y.). The company produces a variety of consumer paper products at different locations in the United States and around the globe. It is currently a major world producer of consumer paper products.

Kimberly-Clark experienced continued growth in sales volume during 1955-1986 period. By 1986 its sales reached to over 4000 million dollars (Figure 5.5). Since consumer paper product demands are relatively inelastic with respect to recession, inflation, and business cycles, Kimberly-Clark's earnings have not varied much compared with those of other forest products firms whose wood products segments, for example, are sensitive to interest rate changes. Operating margins for Kimberly-Clark for 1980-83, for example, remained stable at about 12.5 percent, despite a fairly severe recession.

Figure 5.5: Net Sales of Kimberly-Clark Corporation, 1955-1986.
(in $ million)



Domestic Expansion

As was the case with other major pulp and paper firms, Kimberley-Clark Corporation's domestic expansion began with the acquisition of several smaller companies. Its corporate head office is located in Dallas, Texas. Kimberly-Clark acquired the interest in North Star Timber Co in 1945 and formed this as a wholly owned subsidiary which became supplier of its timber requirements. It acquired the controlling interest in Munising Paper Co. in 1951. In 1954, one-third of the stock of Cellucotton Products Ltd. was acquired jointly with International Cellucotton Products Co. and Albert E. Reed & Co. Ltd.

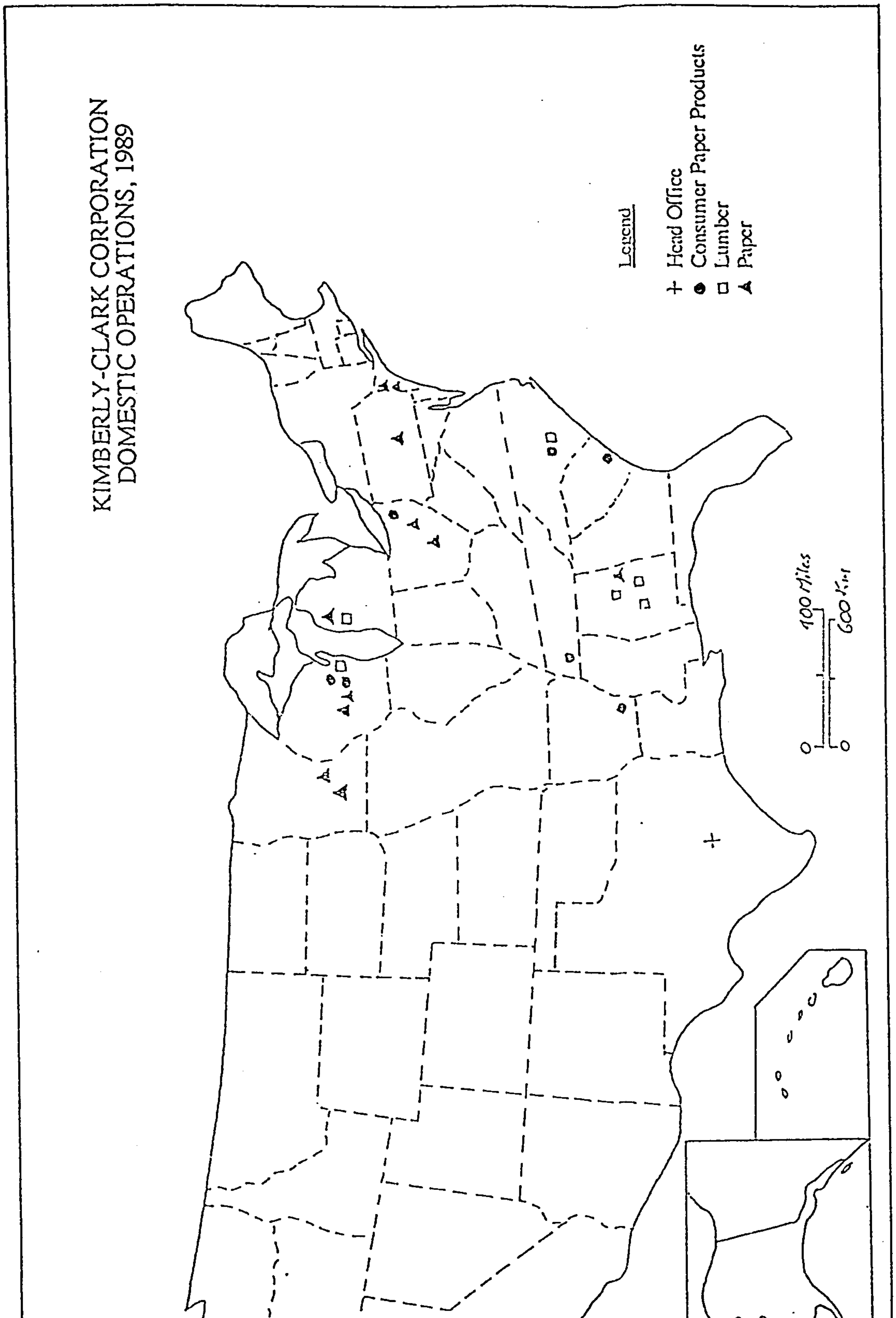

KIMBERLY-CLARK CORPORATION
DOMESTIC OPERATIONS, 1989
Legend
Head Office
Consumer Paper Products
Lumber
Paper
0
100 Miles

Figure 5.6

In the following year, Kimberly-Clark acquired the entire net assets of International Cellucotton Products Co. and the assets of Neenah Paper Co.

Table 5.7: Percentage Distribution of Net Sales by Commodity, 1989.

Product grade	Percentage of Total
Consumer products	69.0
Newsprint/market pulp	16.0
Paper products	13.0
Other	2.0

Source : Kimberly- Clark Annual Report

Kimberly-Clark is comparatively less backwardly integrated than most American forest products companies, with only small percentage of its fiber supplied from its own resources. Its various plants are located in the states of New York, Massachusetts, Pennsylvania, Arkansas, Connecticut, North Carolina, South Carolina, Ohio, Tennessee, Wisconsin, Michigan, Minnesota and California (Figure 5.6). Kimberly-Clark's orientation is production, development, and marketing of all types of consumer personal paper products. The production break down for 1983 shown in Table 5.7 clarifies significantly the strategic choices of the firm.

Kimberly-Clark has been an industry leader in newsprint capacity; it presently accounts for 7.5 percent of total capacity in the U.S. Kimberly-Clark's R&D/sales ratios has been higher than most paper companies due to the consumer-oriented nature of its markets (Arpan et. al, 1986). The firm's high level of expertise in absorbency and fiber chemistry is an example of important technological asset which has allowed it to become leader in consumer paper grade production.

International Expansion

Kimberly-Clark presently has manufacturing operations in 22 countries, as well as an active overseas marketing program. Its' international expansion, as shown in Table 5.8, clearly reveals the distinction between Canadian and Brazilian phases. It began international operation as early as 1943 by investing in a pulp mill at Kapuskasing in Lake Superior region of Ontario, Canada. (Table 5.8). This was followed by opening up of another facility in the same region as Longlac Pulp & Paper Co.

During 1950s, the company acquired two sanitary paper grade producing companies, one in the United Kingdom and the other in France, the Sopalin, S.A. . In 1957, the company again acquired another pulp and paper producing firm, Irving Pulp & Paper in St. John, New Brunswick, Canada. In 1959, the company for the first time looked for the Latin America and invested in Febrico de Papel (K-C Mexico Ltd) in Mexico producing sanitary grade paper.

During the early 1960s, Kimberly-Clark acquired one sanitary paper producing company in South Africa and the Canadian subsidiary acquired a sanitary paper production facility in St. Catharines, Ontario. Also, during this period, it invested in a crepped wadding paper mill in Puerto Rico and acquired sanitary paper grade manufacturing facilities in Panama, Australia and the Philippines.

In the 1970s, the firm started one joint venture household tissue paper mill in Johannesburg, South Africa and one paper producing in Indonesia. In 1974, the Kimberly-Clark increased its ownership control of Spruce Falls Power and Paper Co. Limited to 50% of common stocks. Also during the same time, the company invested in household sanitary

Table 5.8: International Expansion of Kimberly-Clark Corporation, 1943-1977

Year	Location/ Company	Mode/Method of Entry	Ownership at Entry	Product Orientation	Market	Access to Timber Resources	Present Status
1943	Lake Superior, Ont., Canada Kimberly-Clark Corp. of Canada Ltd.	Direct	100%	Pulp	Domestic	X	100% ownership
1945	Lake Superior, Ont., Canada LongLac Pulp & Paper Co.	Direct	100%	Pulp & Paper	Domestic	X	100% ownership
1956	U.K. Reed Paper Hygiene Co. Ltd	Acquisition	67%	Sanitary Paper Grades	Domestic	N/a	100% ownership
1957	France Sopalin S.A.	Acquisition	67%	,,	,,	N/a	100% ownership
1957	St. John, N.B., Canada Irving Pulp & Paper	Acquisition	35%	Pulp & Paper		N/a	35% ownership
1959	Mexico City Febrico de Papel (K-C de Mexico Ltd)	Direct	90%	Sanitary Paper	Domestic	N/a	43% ownership
1960	Johannesburg, South Africa Celullose Products Ltd.	Acquisition	35%	Sanitary Paper	,,	N/a	35% ownership
1961	St. Catherines, Ont.,Canada Interlake Tissue Mills Ltd	Acquisition	100%	Sanitary & Specialty Paper	Domestic	N/a	100% ownership Kimberly-Clark of Canada Ltd.
1962	Puerto Rico K-C International S.A.	Direct	100%	Crepped Wadding Paper	,,	N/a	100% ownership

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Year	Location/ Company	Mode/Method	Ownership at Entry	Product Orientation	Market	Access to Timber Resources	Present Status
1963	Panama City, Panama K-C International S.A.	Acquisition	100%	Sanitary Grades	Domestic	N/a	100% ownership
1963	Warwick Farm, Australia Apcel Ltd	Acquisition	100%	Sanitary Tissue	Domestic	N/a	100% ownership K-C Australia Pty Ltd
1963	Manila, Philippines Hygienic Products Inc.	Acquisition	67%	Sanitary Grades	"	N/a	87% ownership K-C Philippines Inc.
1971	El Salvador	Direct	100%	Tissue Papers	Domestic	N/a	100% ownership
1971	Thailand	Direct	60%	Tissue Papers	Domestic	N/a	60% ownership
1972	Johannesburg, South Africa Carlton Paper	Joint Venture	50%	Household Tissue Papers	Domestic	N/a	50% ownership
1975	Orizaba, Mexico	Direct	100%	Household Tissue	Domestic	N/a	100% ownership
1975	Indonesia	Joint Venture	50%	Bagasse pulp, fine paper& tissue	Domestic	N/a	50% ownership
1976	Orizaba, Mexico	Direct	100%	Writing & Printing Paper	Domestic	N/a	100% ownership
1977	Orizaba, Mexico	Direct	100%	Bleached Bagasse Pulp	Domestic	N/a	100% ownership

Note: N/a not available

X owns and/or controls significant timberlands

Source: Compiled from Corporate Annual Reports and Moody's Industrial Manuals.

paper production facilities in Singapore, Thailand and South Korea. In 1979, the firm acquired the remaining one-third ownership interest in Sopalin, S.A., France.

As mentioned earlier, the pattern of international expansion of Kimberly-Clark fairly displays the distinction between the Canadian and Brazilian phases of the internationalization. However, the firm did establish operations outside of North America long before the beginning of the Brazilian phase. This was partly due to the fact that most of its FDIs are market oriented and partly to its specialization in specific product range. In general, there has been a close linkage between domestic R&D and foreign operations. R & D activities are concentrated in the U.S. and the products manufactured in foreign countries have been researched, developed and innovated in the U.S.

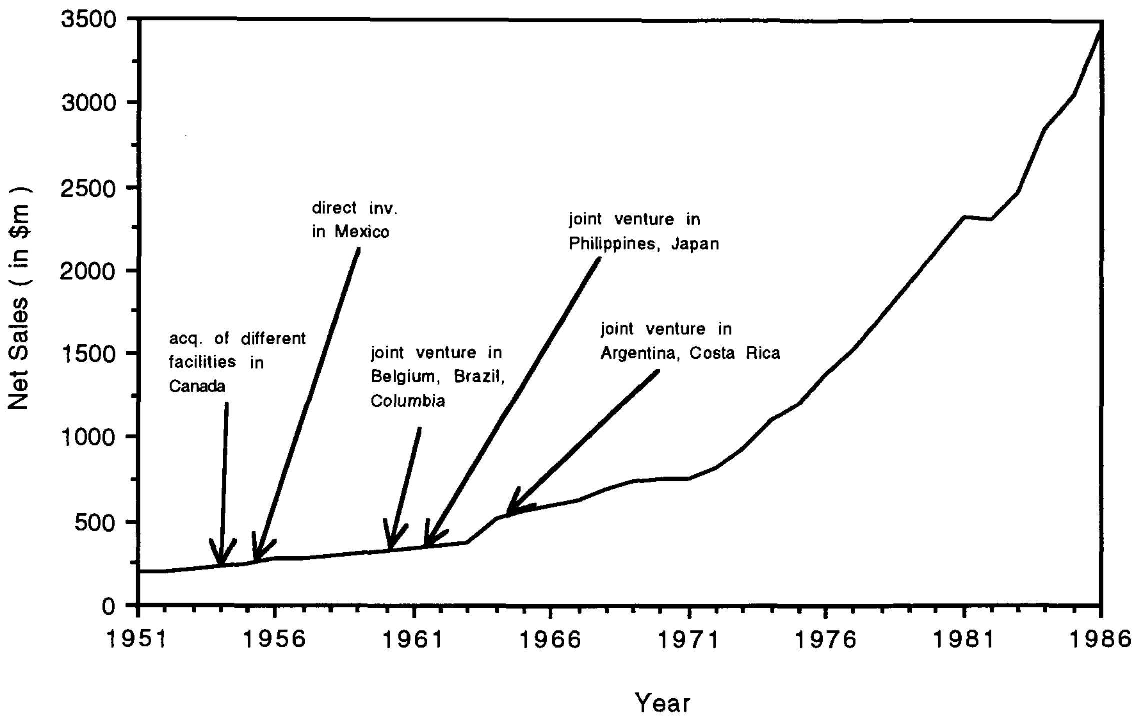
Scott Paper Company

Origins and Profile

Scott Paper Company is the world's largest producer of consumer paper products. It was incorporated in Pennsylvania in 1922 as a merger of a company of identical name previously incorporated in the same place in 1905 and its wholly owned subsidiary Chester Paper Co..

Like Kimberly-Clark, Scott Paper also experienced a continued growth in sales volume during 1951-1986 period. By 1986 its sales reached over 3500 millions dollars (Figure 5.7). Since consumer paper product demands are relatively inelastic with respect to recession, inflation, and business cycles, Scott Paper's earnings have not varied much compared with those of other forest products firms whose wood products segments,

Figure 5.7: Net Sales of Scott Paper Company, 1951-1986.
(in $ million)



for example, are sensitive to interest rate changes. Scott was unusually recession resistant, with its 1983 operating margin of 11.5 percent near the company average for the previous five years.

Domestic Expansion

Scott Paper's early years were characterized by mergers and acquisition which continued for some time. Its head office is located in Philadelphia, Pennsylvania. Scott

Paper acquired Plastic Coating Corporation and its affiliated companies which includes Beveridge Paper Co. and American Paper Stock Co in 1965. It merged the Puget Sound & Baker River Realty in 1966 and S. D. Warren Co in 1967.

The Disposable Textiles Inc. was acquired in 1968 and during the same year Plastic Coating Corporation, Tecnifax and Cantow Realty Corporation were consolidated into a wholly-owned subsidiary the Plastic Coating Co. The corporate name of this subsidiary was subsequently changed to Scott Graphics, Inc. in 1970. Scott acquired Brown Jordan Co and affiliated companies in 1969 and integrated with its corporate structure as a wholly-owned subsidiary. Later in 1971 this subsidiary purchased a leisure outdoor furniture manufacturing plant of Stylume, Inc located in Opa-Locka, Florida. In the same year, Cooper Films, Inc. was acquired.

Scott Paper has typically pursued strategies of vertical forward integration and it is now the largest single producer of consumer paper products in the world. About 92 percent of the firm's revenues comes from the production of pulp and paper and converting at its plants located in the states of Washington, Pennsylvania, New York, New Jersey, Michigan, Wisconsin, Ohio, and Alabama (Figure 5.8). Scott generates about 43 percent of the wood fiber requirements from the 3.3 million acres of timberland the firm owned or controlled.

Scott Paper recently implemented a $1.7 billion capital spending program to raise productivity, lower costs, and improve product mix profitability by shifting to faster growth lines. Also, the recent restructuring of the firm included disposal of marginal mills in the Pacific Northwest to improve overall return on owner's equity.

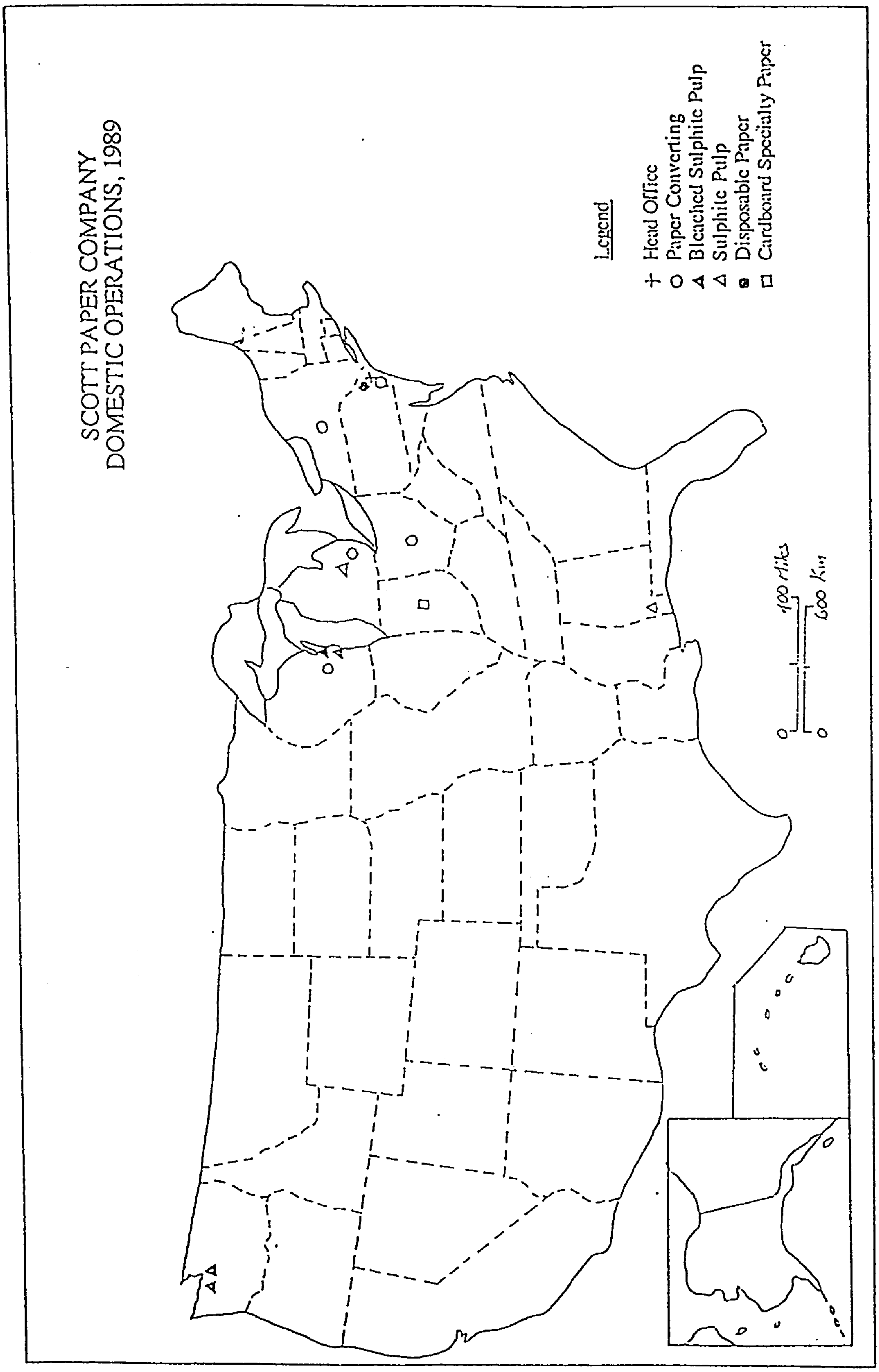

SCOTT PAPER COMPANY
DOMESTIC OPERATIONS, 1989
Legend
+ Head Office
○ Paper Converting
Bleached Sulphite Pulp
△ Sulphite Pulp
Disposable Paper
□ Cardboard Specialty Paper
0 400 Miles
0 600 Km

Figure 5.8

International Expansion

Scott Paper's international expansion dates back to 1954 when it acquired the New Westminster Paper Co. in B.C., Canada (Table 5.9). The acquisition of New Westminster Paper Co was soon followed by the acquisition of the British Columbia Forest Products in 1955. In the same year, it acquired a pulp and paper manufacturing company in San Cristobal, Mexico.

The firm had began its operation in Europe with a joint venture as Bowater-Scott Corp. Ltd. in the United Kingdom in 1956. It looked for prospects in Canada again in 1958 and acquired a timber producing and a pulp and paper manufacturing facilities. It has invested in a joint venture paper conversion facility in Belgium as Bowater-Scott in 1959. In the same year it invested in pulp and paper plants in Panama and in Brazil.

During the early 1960s, Scott Paper started joint ventures manufacturing household utility and sanitary paper grade in Italy, Japan and Netherlands. Also, in a paper and converting operation in the Philippines. By mid 1960s, the acquired two pulp and paper operations, one in Spain and one in Argentina. It has invested in a paper production facility in Costa Rica in 1965. After this investment, Scott Paper did not invest in other countries directly. However, its Canadian subsidiary had substantial expansions through acquisitions, for example, it acquired a disposable paper producer Omega Products Limited, New Westminster, B. C. It produces disposable paper for medical professionals and hospitals and later came under its wholly-owned subsidiary New Westminster Paper.

In the 1970s, Scott looked for prospects in the West Pacific and established a new affiliate Ssangyong-Scott Paper Co. Ltd in 1979 in South Korea. Scott has 34 per cent

Table 5.9: International Expansion of Scott Paper Company, 1954-1980

Year	Location/ Company	Mode/Method of Entry	Ownership at Entry	Product Orientation	Market	Access to Timber Resources	Present Status
1954	New WestminsterB.C., Canada Westminister Paper Co. Ltd	Acquisition	20%	Sanitary Paper	Domestic	N/a	100% ownership
1955	B.C., Canada British Columbia Forest Products Ltd	Acquisition	100%	Pulp & Paper	Domestic	N/a	100% ownership
1955	San Cristobal, Mexico Industrial de San Cristobal S.A.	Acquisition	50%	Pulp & Paper	Domestic	N/a	50% ownership
1956	U.K. Bowater-Scott Corp Ltd	Joint Venture	50%	Tissues, Napkins Wax Papers	Domestic	N/a	50% ownership
1958	Canada Scott-Canadian Timberlands Ltd.	Acquisition	100%	Timber	Domestic	X	Liquidated in 1963
1958	Nova Scotia, Canada Nova Scotia Wood Pulp & Paper Ltd.	Acquisition	100%	Pulp & Paper	Domestic	X	100% ownership
1959	Belgium Bowater-Scott	Joint Venture	50%	Conversion of Paperstock into finished household tissue products	Western Europe	N/a	rest 50% ownership acquired by Scott Paper Co in 1964

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Year	Location/ Company	Mode/Method of Entry	Ownership at Entry	Product Orientation	Market	Access to Timber Resources	Present Status
1959	Panama	Direct	100%	Pulp & Paper	Domestic	N/a	100%
	Brazil COPA- Companhia de Papeis	Direct	50%	Pulp & Paper	Domestic/ Foreign	N/a	50%
1960	Turin, Italy Bowater-Scott	Joint Venture	50%	Household utility Paper	Domestic	N/a	remaining 50% interest acquired in 1963
1961	Tokyo, Japan; Sanyo-Scott Ltd.	Joint Venture	50%	Sanitary paper	Domestic	N/a	50%
1961	Copenhagen, Denmark Bowater-Scott	Joint Venture	50%	Sanitary Grade	Domestic	N/a	50%
1961	Quezon City, Philippines Eastern-Scott Paper Co.	Joint Venture	50%	Paper & Paper Converting	Domestic	N/a	acquired another 50% interest in 1963 and renamed Scott Paper Philippines Inc. Sold in 1986
1965	Spain	Acquisition	100%	Pulp & Paper	Domestic	X	100% ownership Gureola-Scott S.A.
1965	Argentina Celulosa Jujoy S.A.	Acquisition	48%	Pulp & Paper	Domestic	N/a	33% ownership
1965	Costa Rica Scott Paper de Costa Rica	Direct	50%	Paper	Domestic	N/a	40% ownership

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Year	Location/ Company	Mode/Method of Entry	Ownership at Entry	Product Orientation	Market	Access to Timber Resources	Present Status
1967	Columbia Papeles Scott de Colombia		50%	Pulp & Paper	Domestic	N/a	sold in 1986
1967	Portugal Scott Paper Portugal Ltda	Direct	100%	Household paper	Domestic	N/a	100% ownership
1968	Malaysia Scott Paper (Malaysia) Sdn. Bhd.	Direct	100%	Paper	"	N/a	100% ownership
1968	New Westminster, B.C., Canada Omega Products Ltd	Acquisition	100%	Disposable Papers	"	N/a	100% ownership
1979	Seoul, Korea Ssangyong-Scott Paper Co.	Direct	34%	Paper	Domestic	N/a	34% ownership
1980	Spain Gureola-Scott S.A.	Acquisition	100.00%	Paper	"	N/a	100% ownership

Note: N/a information not available
X owns and/or controls significant timberlands
Source: Corporate Annual Reports and Moody's Industrial Manuals

ownership interest in this affiliate. In the following year, its Spanish subsidiary acquired a paper mill in the Salamantca Province of Spain.

From the above examples of international expansion of Scott Paper, a few generalization can be made. The distinction between the Canadian and Brazilian phases of internationalization is not very clear in the case of the firm in the early years of its international expansion. The firm had presence in both Canada and countries outside of North America long before the distinction. This is perhaps because of its market-orientation and the nature of product specialization. The distinction is clear in the later stages especially after 1960s and the expansions that took place in the 1970s confirms the distinction, however.

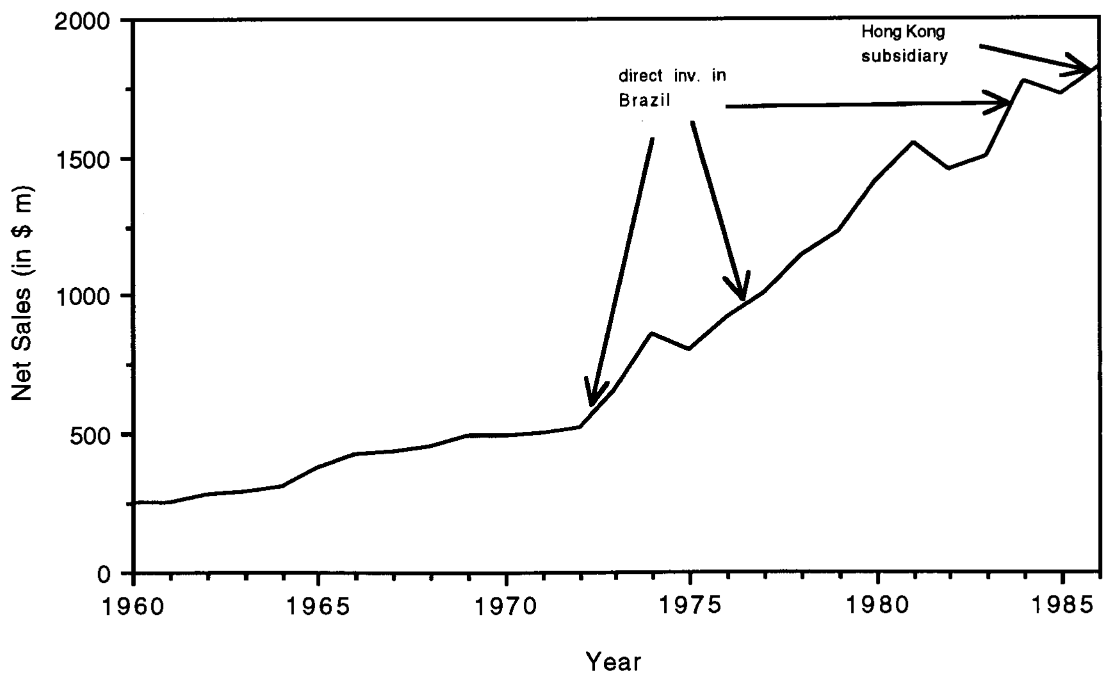
The steps towards geographical diversification of operations made it possible for the firm to be unusually resistant of recessionary pressures of early 1980s. Also, as a part of its strategy to overcome such pressures, the firm sold its facilities in the Philippines and in Columbia. It was able to increase the share of earnings of its international affiliates to $26.6 million in 1983 and earned about $1.2 billion from combined sales of its international affiliates. The increase of earnings from the international operation as it was reported, was due largely to the performance of its Mexican affiliate Compania Industrial de San Cristobal as well as the improvements by most of the other affiliates (Scott Paper Annual Report, 1983).

Westvaco Corporation

Origins and Profile

Westvaco corporation has a long history of pulp and paper making in both its country of origin and outside. It was incorporated in 1899 as West Virginia Pulp and Paper Co. to acquire the stock of a West Virginia corporation of the same name and the stock of Morrison & Cass Paper Co. of Tyrone, Pennsylvania. The present corporate name was adopted in 1969. It produces different pulp and paper grades at its different plants located in the US. Its net sales volume was increased from about 250 million dollars in 1960 to about 1700 million dollars in 1986 (Figure 5.9).

Figure 5.9: Net Sales of Westvaco Corporation, 1960-1986
(in $ miilion).



Domestic Expansion

Westvaco originated as an incorporated firm in 1899 after acquiring the stock of West Virginia Corporation which was established at West Piedmont (now Luke), Maryland and Morrison & Cass Paper Co of Tyrone, Pennsylvania in 1888. Having its head office located in New York, Westvaco continued to expand along east coast of the U.S. It purchased the property of Duncan Co at Mechanicville, New York. in 1904 and the capital stock of Williamsburg Paper Manufacturing Co at Williamsburg, Pennsylvania in 1906. The domestic expansion continued for some time and expansion since 1953 is discussed below.

Westvaco merged with Hinde & Dauch Paper Co in 1953. The latter was a major producer and converter with a large sales organization specialized in corrugated paper and boxes in eastern United States. This merger of Westvaco and Hinde & Dauch Paper was a part of post World War II merger movement in the American paper industry and as observed by Smith (1970) is very instructive in how mergers takes place and what it means to the participants. Hinde & Dauch disappeared into the larger discussion and became a separate division of Westvaco. The parent firm, Westvaco, built three new plants at Eaton, Ohio; Meriden, Connecticut; and at Kansas City in 1954.

In 1957, Westvaco acquired Virginia Folding Box Co whose manufacturing facilities are located in Richmond, Virginia. In the following year, it acquired Fulton Bag & Products Co and its operations of multiwall sack and specialty paper plants at New Orleans and St. Louis. The operation of New Orleans plant later became a division of Westvaco.

During the 1960s, the firm acquired a number of firms and liquidated some of its previously held operations. It acquired the control of U.S. Envelope Co. for about $9,000,000 in 1960. The company liquidated Virginia Folding Box Co. and started operating Virginia Folding as a division of the Westvaco in 1964. In the following year it closed the specialty paper plant located at St. Louis. In 1967, Wesvaco entered into a lease agreement with the city of Wicklife, Kentucky to construct a paper mill which started operation in 1971. It purchased the outstanding capital stock of C.A. Reed Co's diversified line of paper party-ware and other disposable paper production facilities at Williamsport, Pennsylvania for approximately 6,000,000 in 1968. This is presently operated as a division of the firm. In 1969, it acquired Flack-Jones Lumber Co. Inc. and started operating this as a separate division. In 1972, Westvaco established its domestic subsidiary Westvaco Worldwide Corporation located in New York.

Westvaco presently manufactures and sells bleached pulp, papers and paper products; unbleached papers and paper products and also produces specialty chemicals and converts lumber. Table 5.10 shows the percentage distribution of net sales by product

Table 5.10: Percentage Distribution of Net Sales by Commodity, 1985.

Product range	Percentage of Total
Bleached pulp, paper and paper products	61.0
Unbleached papers and paper products	28.0
Other	11.0

Source: Moody's Industrial Manual, 1987.

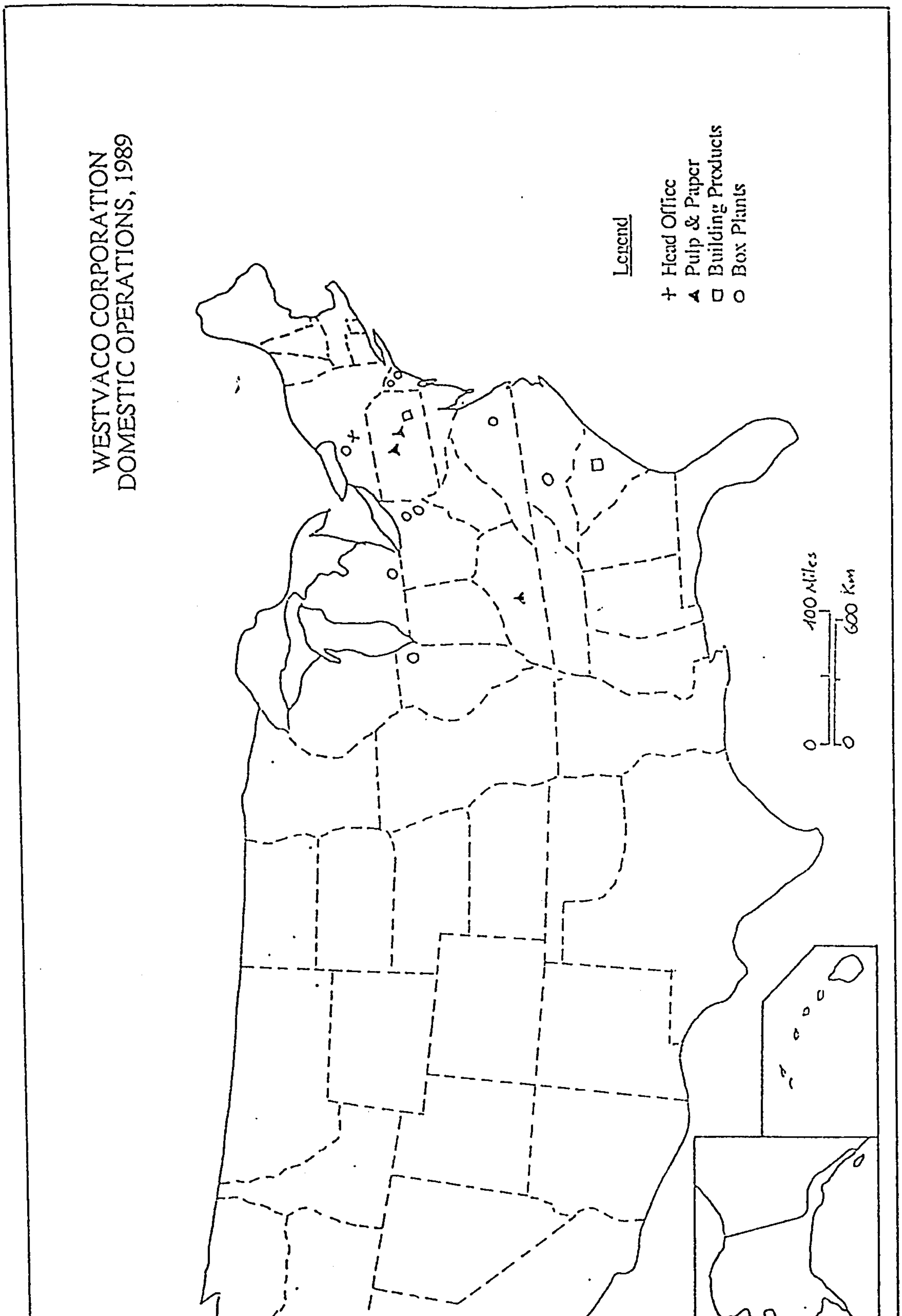

WESTVACO CORPORATION
DOMESTIC OPERATIONS, 1989
Legend
+ Head Office
Pulp & Paper
□ Building Products
o Box Plants
100 Miles
600 Km
0
0

Figure 5.10

range of Westvaco. The firm specializes in the production of bleached pulp, paper and paper products and about 89 percent of its sales were generated from the production of various grades pulp and paper at its various plants located in the states of Pennsylvania, Virginia, South Carolina and Kentucky (Figure 5.10).

The domestic expansion of Westvaco reveals that it followed both horizontal and forward and backward vertical integration strategies. The possession of rights and ownership over a vast forest land which amounts to some 1348600 acres in the U.S. helped the firm to internalize raw material sources. Although the firm built some new plants and facilities, the domestic expansion was achieved, like other major American firm, through acquisition and merger of several smaller firms.

International Expansion

Westvaco started its foreign operation by acquiring Rigesa S.A. of Sao Paulo,Brazil, a paperboard and corrugated container manufacturing firm in Brazil in 1953 (Table 5.11). However, Hinde & Dauch Paper Co which became a separate division of the firm had a long presence in Canada before the acquisition of this Brazilian firm. Westvaco sold out the Hinde & Dauch properties in Canada in the year 1959.

During 1960s, the company established two sales and distribution subsidiaries, one in Brussels, Belgium as Westvaco Europe and other in Sydney, Australia as Westvaco Pacific. In 1974, the company started a paper mill in Tres Barras, Santa Catarina Brazil followed by another corrugated box plant in Blumenau of Santa Catarina region of Brazil in 1978. Again in 1984, Westvaco invested in another corrugated box plant in Brazil. It presently owns or has right to 109200 acres of timberland in Brazil.

Table 5.11: International Expansion of Westvaco Corporation, 1953-1986.

Year	Location/ Company	Mode/Method of Entry	Ownership at Entry	Product Orientation	Market	Access to Timber Resources	Present Status
1953	Valinhos, Sao Paulo, Brazil Rigesa S.A.	Acquisition	100%	Paperboard & Corrugated containers	Domestic/ Foreign	X	100% ownership Rigesa Ltda, Brazilian subsidiary
1974	Tres Barras, Santa Catarina Brazil	Direct	100%	Container Board & Kraft Paper	Domestic/ Foreign	X	100% ownership Rigesa Ltda
1978	Blumenau, Santa Catarina	Direct	100%	Corrugated Box	,,	X	100% ownership Rigesa Ltda
1984	Manaus, Amazonia, Brazil	Direct	100%	,,	,,	X	100% ownership Rigesa Ltda
1986	Hong Kong Westvaco Hong Kong Ltd	Direct	100%	Paper Grades	,,	N/a	100% ownership

Note: Westvaco's Brazilian subsidiary has 110,700 acres of timberlands rights in Brazil
X owns and/or control significant timberlands
N/a information not available
Source: Corporate Annual Reports and Moody's Industrial Manuals.

During 1985, the firm established two new subsidiaries Westvaco Asia K.K. in Japan and Westvaco Canada Ltd. These two subsidiaries are engaged in the distribution and sales of its products produced in its facilities both inside and outside of the U.S. In the following year, Westvaco Hong Kong Ltd was established. This development in international operation of the firm has a bearing on the net sales profile (Figure 5.9). Despite the increase in sales volume, Westvaco's international expansion, as compared to other selected firms, is minimal. It does not conform to the distinction of the Canadian and Brazilian phases. The expansion in the the Brazilian subsidiary in the 1970s and 1980s, if not clearly, closely reflects the fact that the firm responded to the Brazilian phase of internationalization of the industry, however.

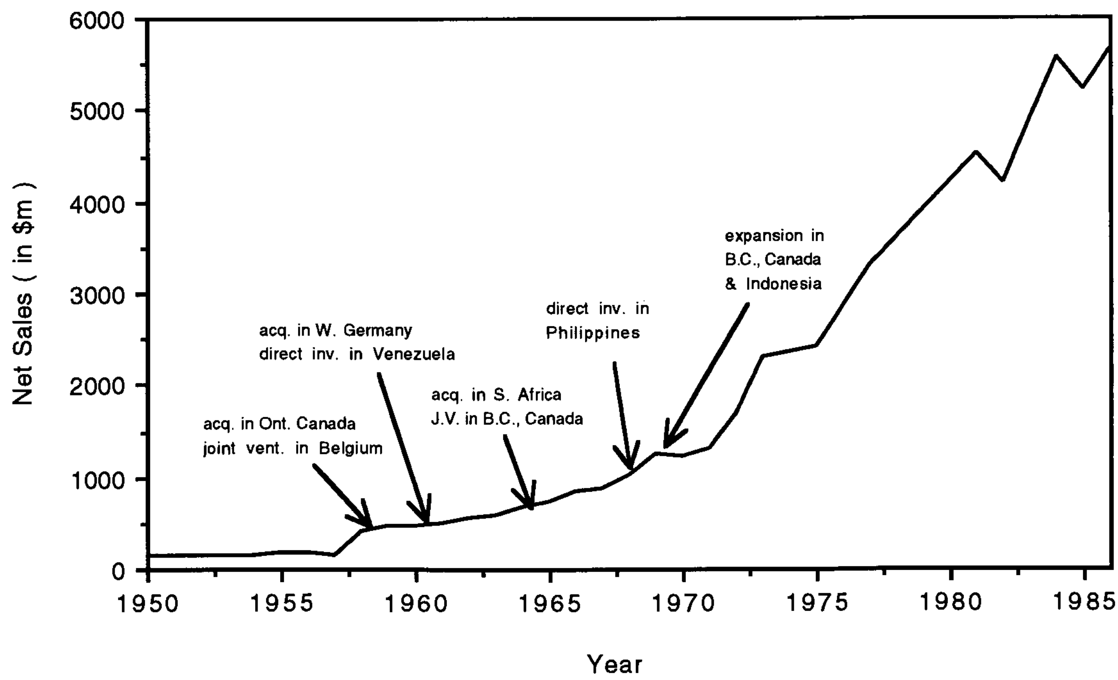
Weyerhaeuser Corporation

Origins and Profile

Weyerhaeuser Corporation was incorporated under laws of the State of Washington in 1900. Its head office is located at Tacoma, Washington State. Weyerhaeuser has a long dominant presence in the domestic and export lumber and log business. In 1983 Weyerhaeuser became seventh in US bleached paperboard, with 4.9 percent of total capacity. The company had even more market presence in linerboard and corrugating medium, with 8.7 and 7.1 percent of the capacity in those commodities. This made Weyerhaeuser one of the top producer of linerboard and corrugating medium in the U.S. Its capacity in uncoated printing and writing medium is about 4.9 percent of the total U.S. capacity. With its large timber base, Weyerhaeuser was also the top North American producer of paper grade market pulp and has about 8.5 percent of total capacity in North America.

With respect to its growth, however, the company experienced a fluctuating increase in sales volume from 1950 to 1986 (Figure 5.11). This was interrupted by the general economic down turn during the recessions of 1970s and 1980s and also because of its specialization in building products. During these periods, the boom in home construction halted in North America and as such its sales was dropped considerably.

Figure 5.11: Net Sales of Weyerhaeuser Corporation, 1950-1986.
(in $ million)



The firm owns or controls about six million acres of prime timberland in the pacific Northwest and the South, and controls over ten million more in Canada and Southeast

Asia. This ownership and control of timberlands supplies all its own timber needs, which makes it unique among its large competitors.

Domestic Expansion

The domestic expansion of Weyerhaeuser began immediately after its incorporation. It acquired a Douglas Fir saw mill in Everett, Washington State. The firm formed its sales subsidiary, Weyerhaeuser Sales Company in 1919 at St. Paul, Minnesota. It invested in its first Ponderosa Pine saw mill at Klamath Falls in the Oregon State. This saw mill began its operation in 1930 which was followed by its first sulphite pulp mill at Longview, Washington State. The firm began its corporate forestry research & development in 1941 by establishing a tree farm at Grays Harbour, Washington State.

The domestic expansion of Weyerhaeuser since 1947 is summarized in Table 5.12. Between 1947 and 1957, the firm invested in seven new facilities of plywood, kraft pulp, containerboard, paper and board and acquired one sawn timber firm. All these new investment and acquisition were made in the states of Washington and Oregon.

During the early 1960s, the firm began to diversify geographically outside of Washington and Oregon states by acquiring a plywood production facilities at Marshfield, Wisconsin. After this acquisition, it looked for opportunities farther east and acquired a fine paper production facility at Miquon, Pennsylvania. Weyerhaeuser entered in the industrial converting and book papers industries by acquiring a firm in Fitchburg, Massachussets in 1962. Also, in the same year, the firm purchased the research facilities of adhesive and resin division of Martin Marietta Corporation. It invested in a new molded wood plant at Marshfield, Wisconsin in 1963 and a southern pine plywood mill at Plymouth, North Carolina in 1965.

Table 5.12 : Domestic Expansion of Weyerhaeuser, 1947-1987

Year	Location & Product	Method of Entry	Company Acquired
1947	Washington State; plywood	New facility	
1948	Washington State; Kraft pulp	New facility	
1949	Oregon; Containerboard	New facility	
1952	Washington State; paperboard, wood-fibre	New facility	
1953	Oregon; Ply-veneer	New facility	
1954	Oregon, hardboard	New facility	
1955	Oregon; particleboard	New facility	
1957	Oregon; sawn timber	Acquisition	W.A. Woodward Co.
1960	Wisconsin; plywood	Acquisition	Roddis Plywood Corp.
1961	Pensylvania; fine paper	Acquisition	Hamilton Paper Co.
1962	Massachussets; Converting, printing papers	Acquisition	Crocker, Burbank & Co.
1963	Wisconsin; Molded wood	New facility	
1965	North Carolina; plywood	New facilities	
1966	Vermont; Ski-resort development	Acquisition	Jay Peak Inc.
1967	Mississippi; lumber, plywood	Acquisition	A. DeWeese Lumber Co.
1969	Arkansas, Oklahoma various forest & gypsum products	Acquisition	Dierks Forests Inc.
	Oregon; plywood	$24 million expansion at Klamath Falls	
	Washington State; lumber	Acquisition	Quadrant Corp
1970	North Carolina; sawn timber	$5.5 million new facilities	
1974	New Jersey; home-building	Acquisition	Scarborough Co.
	Mississippi; Hardwood lumber	Acquisition	Erickson Hardwoods Co
1979	Washington State; Newsprint	Joint Venture $164 million	NORPAC
1981	Washington State; paper board	Acquisition	West Coast Paperboard Co
	Washington State; Newsprint	Expansion	NORPAC
1983	New York; plywood panel	Acquisition	Tri-Wall Inc.
1987	Minnesota, Texas, Iowa, North Carolina & Tennessy; corrugated container	Acquisition	Mead Corporation

Source: Corporate Annual Report and Moody's Industrial Manual

In 1966, the firm saw opportunity in another business and acquired a ski resort development company at Jay Park, Vermont. After this, the firm continued its expansion through acquisition until 1969. It acquired a lumber mill, plywood mill and timber holdings in Mississippi and various forest products and gypsum products mills in Arkansas, Oklahoma and Washington states.

Weyerhaeuser also saw opportunities in home-building in the beginning of 1970s. It acquired a residential-builder firm at Cherry Hill, New Jersey in 1974. In the same year, the firm acquired a lumber firm in the State of Washington. In 1979, the firm entered into the newsprint operation with the start up of the $164 million the North Pacific Paper Corporation (NORPAC) complex at Longview, Washington State. The NORPAC is a joint venture between Weyerhaeuser and Jujo Paper Company of Japan in which Weyerhaeuser owns 90 percent interest.

Weyerhaeuser continued its domestic expansion in the 1980s (Table 5.12).The firm acquired three diffrent forest product firm during this period; one paperboard operation in Washington State and a plywood panelboard operation in New York State. During the early 1980s, NORPAC doubled its capacity with the start-up of its second newsprint machine at Longview, Washington and the capacity increased to 400,000 tons per year. In the same period, the firm sold its kraft paper and multiwall bag operations in Pine Bluff, Arkansas. This was followed by the formation of Weyerhaeuser Information Systems. The third and biggest acquisition by Weyerhaeuser occurred in 1987 when it acquired six corrugated container plants from Mead Corporation. These plants are located in Alberta Lea, Minnesota; Amarillo, Texas; Waterloo, Iowa; Butner, N.C.; St. Joseph, Mo and Memphis, Tenn. In the following year, consolidated Weyerhaeuser Real Estate Co & Weyerhaeuser Financial Services, Inc.

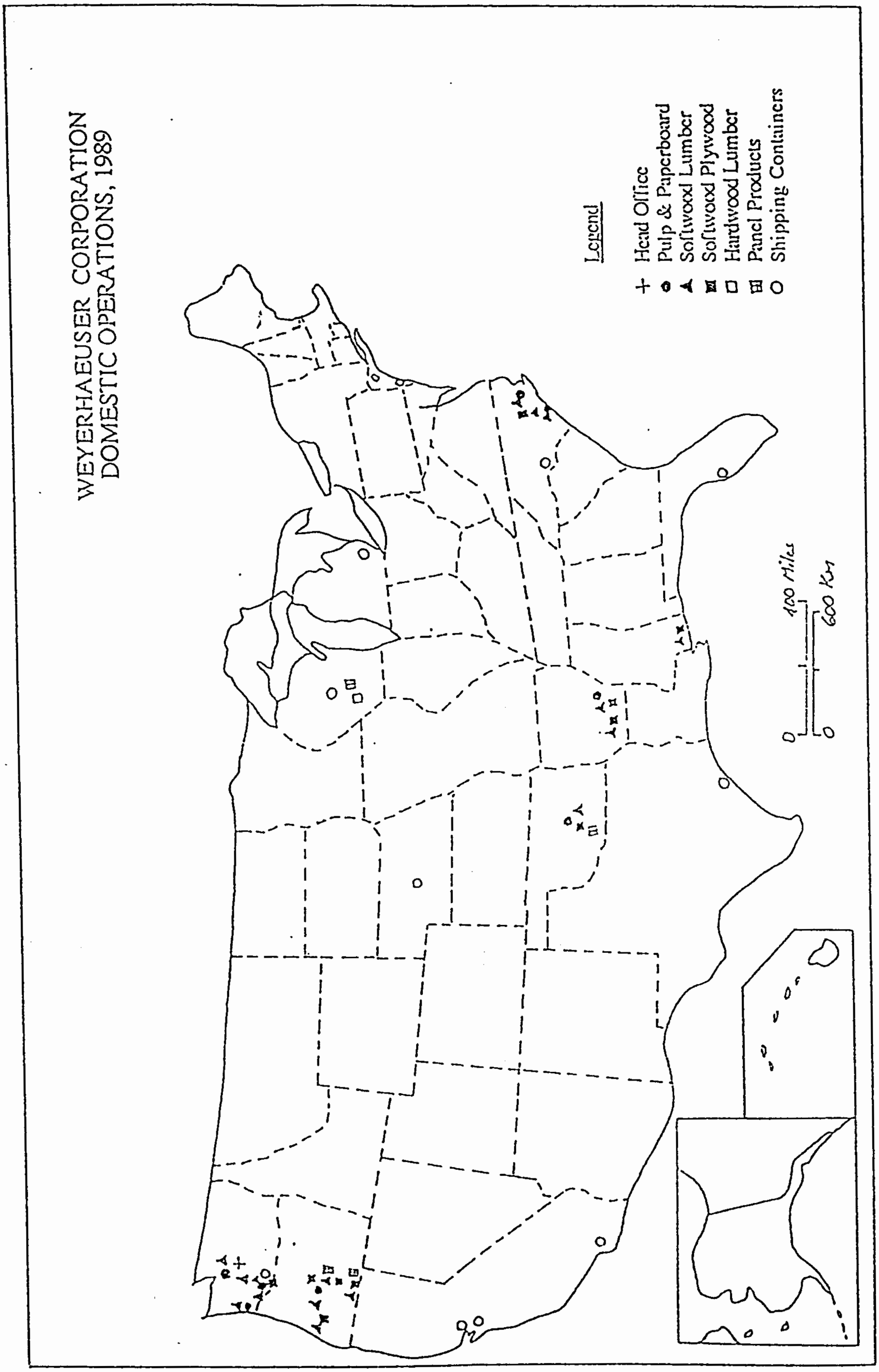

WEYERHAEUSER CORPORATION
DOMESTIC OPERATIONS, 1989
Legend
Head Office
Pulp & Paperboard
Softwood Lumber
Softwood Plywood
Hardwood Lumber
Panel Products
Shipping Containers
0
100 Miles
0
600 Km

Figure 5.12

As mentioned earlier, the firm specializes in the production and distribution of timber and building products. However, the company also produces and distributes pulp and paper which contributes significantly to its total sales (Table 5.13).

Table 5.13:Percentage Distribution of Net Sales by Commodity, 1989.

Product range	Percentage of Total
Building materials (lumber & panels)	53.0
Pulp and Paper	25.0
Containers and Packaging	14.0
Other (mortgages, real estate)	9.0

Source: Weyerhaeuser Annual Report

The domestic expansion path of Weyerhaeuser, therefore, clearly reveals the simultaneous diversification of products, market and technology through conglomerate growth strategies. This helped Weyerhaeuser achieve a corporate-spatial structure which significantly differs from other selected pulp and paper multinationals (Figure 5.12). With highly competitive capacities in place and a huge timber base, Weyerhaeuser recently become more firmly entrenched as a market leader in the U.S. and the Pacific Rim.

International Expansion

Unlike other selected firms, Weyerhaeuser began its international operation in 1960s and for the first time in Western Europe (Table 5.14). It acquired a folding carton and printing operation in Munich, West Germany in 1961. In 1963, the firm started a

Table 5.14: International Expansion of Weyerhaeuser Corporation, 1961-1971.

Year	Location/ Company	Mode/Method of Entry	Ownership at Entry	Product Orientation	Market	Access to Timber Resources	Present Status
1961	Munich, W Germany DRUCK-OBPACHER, A.G.	Acquisition	100%	Folding Cartons & Printing	Domestic	N/a	100% ownership
1963	Guatemala; Cajas 'J Empaques de Guatemala, S.A.	Joint Venture	50%	Shipping Containers	,,	N/a	sold in 1975
1964	Reims, France PROPSY, S.A.	Acquisition	67.60%	Shipping Containers	,,	N/a	67.60% ownership
1964	Kamloops, B.C., Canada Kamloops Pulp & Paper Co.	Joint Venture	50%	Pulp & Paper Grades	Domestic/ Foreign	N/a	now wholly owned subsidiary
1965	Merritt, B.C., Canada Merritt Diamond Mills Ltd	Acquisition	100%	Timber	,,	N/a	100% ownership
1966	Philippines; Basilan Lumber Corp.	Acquisition	100%	Hardwood Lumber	,,	750000 acres	100% ownership
1967	Athens, Greece; Carton Pak Ltd.	Acquistion	76%	Shipping Containers	Domestic	N/a	76% ownership
1968	Ontario, Canada Whitman Lumber Co. Ltd.	Acquistion	100%	Timber	Domestic/ Foreign	X	100% ownership
1970	Kamloops, B.C., Canada B.C. Interior Saw Mills & Kamloops Lumber Co.	Acquisition	100%	Timber	Domestic/ Foreign	X	100% ownership
1971	Indonesia; P.T. Int'l Timber Corp.	Acquisition	100%	Timber	,,	X	sold in 1981
1971	Japan	Direct	100%	Plastic-coated milk milk Containers	Domestic	N/a	100% ownership

Note: N/a information not available
X owns and/or control significant timberlands
Source: Corporate Annual Reports and Moody's Industrial Manuals

joint venture shipping container manufacturing facility in Guatemala. In the following year, it acquired another shipping container producing concern in France and started its Canadian operation with a joint venture pulp and paper mill in Kamloops, B.C.

During the second halve of 1960s, Weyerhaeuser acquired a timber plant in Canada, a hardwood timber plant in the Philippines, a shipping container in Athens, Greece and another timber plant in Ontario, Canada. Again, in the early seventies, the firm acquired the B.C. Interior Saw Mills and Kamloops Lumber Company in Canada. During the same time, it acquired a timber producing company, P.T. International Timber Corp. in Indonesia. This timber producing company was sold to Indonesian public in 1981.

The above examples shows that Weyerhaeuser simultaneously expanded its operations in the U.S. and other foreign countries. The international expansion, however, does not clearly reveal the distinction of the Canadian and Brazilian phases. This is perhaps because of the fact that the firm began its foreign operations only in the 1960s. Weyerhaeuser currently has manufacturing operation in five countries outside of U.S. and generates around 20 percent of the total company sales.

Summary

The selected firms are distinctive in their characteristics in terms of product specialization. However, these firms have one thing in common: they increasingly relied on acquisition as means of growth. Indeed, the merger and acquisition of several other existing firms' assets and production facilities were important when they were consolidated into larger firms. The increasing demand in the market place and firms' potential and greater security in terms of supply of inputs, marketing and distribution of forest products stimulated the pursuance of strategies of vertical and horizontal integration. These have a greater implication for implementing expansions across the global scale.

Figure 5.13: Growth of Net Sales of the Selected Firms, 1950-1986

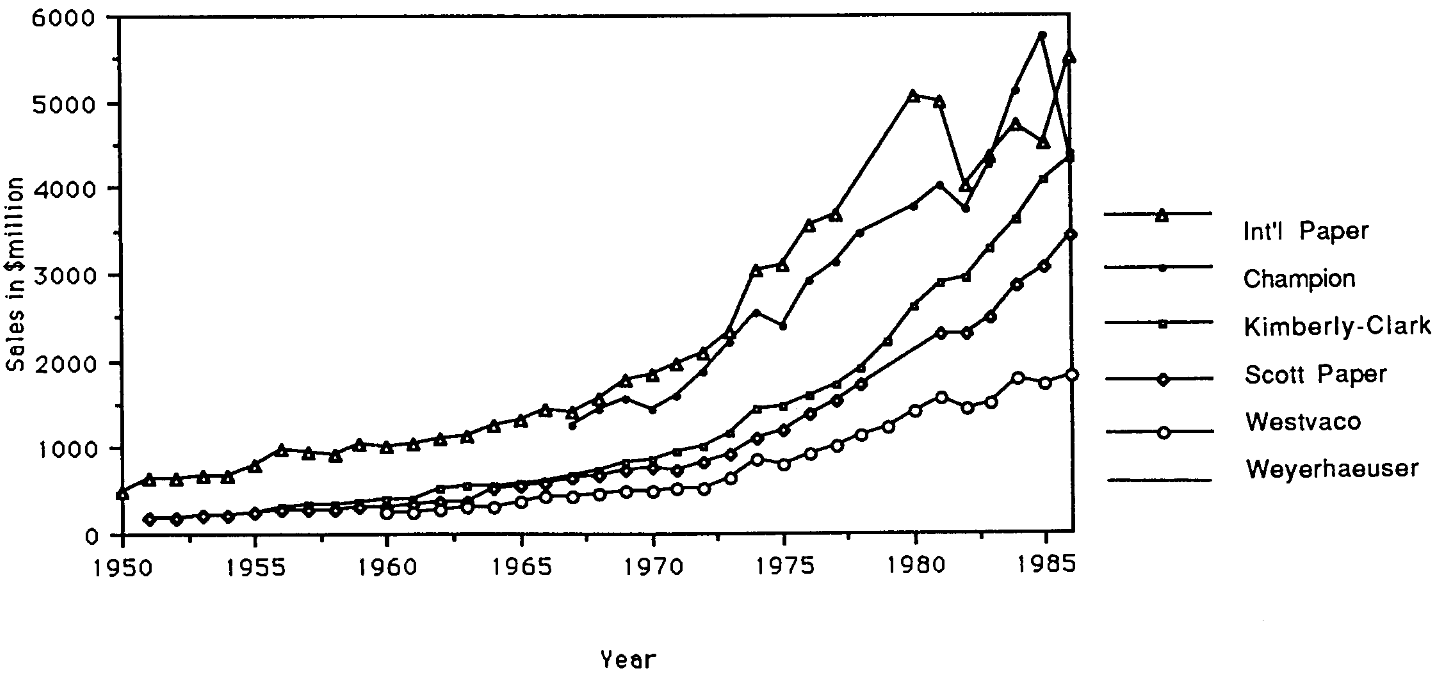


Figure 5.13 shows an aggregate picture of growth and the expansion taken place by the selected firms from 1951 to 1989 periods. With respect to the "aggregate"

expansion path of the selected six firms and a single growth- net sales are considered, a few conclusions can be drawn. Although corporate rates do not reveal any tendency to decline, variations emerge reflecting differences in growth aspirations, in opportunities and in the extent to which these firms remained dependent on the prospects of particular product mix. For example, the specialization of consumer paper grades by Kimberly-Clark Corporation and Scott Paper Company.

In terms of net sales, the selected firms (with the exception of Kimberly-Clark and Scott Paper) alternated between relatively slow growth and relatively fast growth phases, the length of which also varied. For example, International Paper, Weyerhaeuser and Westvaco experienced relatively a fast growth which lasted for a decade between 1970 and 1980. In the early 1980s, growth declined and was picked up again by 1984. These fluctuations represents purposeful moves by firms to change industrial and geographical spheres of operations. These are also accounted for by acquisitions, larger investments and also by strategies related to the reduction of recessionary pressures during early 1980s.

The above reveals a pattern of international expansion of the activities of the selected firms. This pattern is overlapped by the two broad phases of internationalization of the industry as outlined by Gobbo (1980). The Canadian phase which occurred during 1950 to 1970 and the Brazilian after 1970s.[1] However, in some cases the time periods of this distinction were not strictly followed and in some cases this was done because of the opening of new markets and entry by rivals. For example, Scott Paper established operations in Mexico in 1955 and this was soon followed by Kimberly-Clark in 1959.

[1] see Chapter 1 and 3 for discussion on the Canadian and Brazilian phases.

The international expansion of the selected firms as mentioned in the preceding paragraph can be divided into three periods. First is between 1951 to 1969, the second is 1970 to 1980, and lastly the 1980s. The 1951-1970 period, all the selected firms have experienced a tremendous expansion internationally. This was mainly because of the existing opportunities in Canada and other West European countries and beginning of opportunities in Latin America. The second and third periods, which can be labelled as the Brazilian phase, have been characterized by the expansion mainly in the developing countries of Latin America and South-east Asia and expansion was somewhat slow and steady. Only, Westvaco, Champion International, Kimberly-Clark and Weyeraeuser had substantial expansion during these phases.

Along with the international expansion, it is revealed that the selected firms have sold partially their interest or withdrawn completely from different countries. An important such withdrawal was the sale of International Paper's Canadian subsidiary. This withdrawal was seen as a reflection of Canada's declining competitive position and restructuring of the industry (see Marchak, 1983) However, Hayter (1985) argued that this particular sale was done because the International Paper wanted the money to modernize its existing facilities in the U.S. This argument regarding this held to be true as we discussed that the firm utilized the income from the sale to diversify and acquire another paper company in the U.S. .

On the other hand, increase of ownership occurred in some subsidiaries of the selected firms, for example, Champion has increased its ownership of the Canadian subsidiary Weldwood of Canada. Similarly, increase of ownership interest and divestment occurred in developing regions by the selected firms. These are resulted due to poor growth prospects or inflationary or other financial difficulties and do not necessarily conform with the obsolescing bargain hypothesis.

CHAPTER VI

Summary and Conclusion

This thesis has attempted to investigate the pattern of foreign direct investment in the pulp and paper industry, which has become global in scope. The existence of multinational pulp and paper corporations, who have expanded their international operations in underdeveloped as well as developed countries through the pursuit of both horizontal and vertical integration strategies to utilize raw materials, gain access to markets and respond to different competitive pressures, has significantly enhanced the globalization process.

As in the case of other industries, most of the international operations of pulp and paper firms were located in already developed countries. Since the 1960s however, there has been a relative shift in foreign pulp and paper investment towards developing countries. This shift of emphasis has been associated with several factors: the wood supply availability in many developing countries; the declining wood supply in the traditional areas; technological changes which have permitted the geographic diversification of pulp and paper industry and the growing demand for pulp and paper in both developing and developed countries. These factors have influenced the case study firms to invest outside of their country of origin.

The Expansion of International Firms and Locational Choice

The thesis attempted to adopt a workable theoretical framework for analyzing the FDI in the pulp and paper industry. In order to do so, the existing theories on FDI and multinational corporation were reviewed. The focus was particularly directed to the industrial organization theories and the underlying concepts of barriers to entry and entry advantages as proposed by Caves (1971) and others in industrial organization literature and further adopted by geographers. Caves argued that firms contemplating investments in foreign environments must have some entry or competitive advantage vis-a-vis potential local competitors in order to compensate various barriers to entry which are spatial in nature. The main advantage that the international firms have over their local competitors in foreign market, as per Caves's postulation, is their ability to differentiate products. For forest product firms, however, the main advantage is production and marketing know-how and ability to obtain financing.

Firms, therefore, make decisions after assessing local conditions. This is necessarily judgmental because unlike local (host) competitors, international firms do have disadvantages pertaining to local legal, cultural, political, economic and physical conditions which impinge upon the viability of plants. And, overcoming of such spatial barriers, host/ corporate relationship and organizational strategies are determined largely by bargaining process.The political and economic policies and situations or favorable business environments in both host and home countries may influence the FDI decision making process. In this regard, the obsolescing bargain hypothesis as postulated by Vernon (1971) was also adopted in the thesis.

Findings and Conclusions

It is observed that the industry is dominated globally by 100 top pulp and paper firms based in different countries. This suggests a somewhat oligarchic organizational structure. A few of the largest vertically integrated firms competing in the industry dominate the organizational structure. This integration has provided large firms with economic advantages over their competitors both at home and world markets.

The internationalization process in the industry has been characterized by two distinct phases, that is, the so-called Canadian and Brazilian phases. Analysis of the pattern of FDI of the case study firms provided support for the distinction between these two phases (see Table 6.1). The selected firms, with exception of Westvaco Corporation, have established their first foreign operations in the 1950s, and on one occasion in the 1940s, in developed countries. Since then, these firms continued to expand internationally both in the developed and developing countries (see Chapter V). Moreover, the relative importance of developing countries as host countries for pulp and paper investment increased slightly over time in accordance with the Brazilian phase.

There were also interesting patterns in entry characteristics. Thus, it was found that the most entries in the developing countries were the first basic type, that is establishment of new wholly-owned subsidiary. Nevertheless, a significant number of acquisition and joint venture entries also occurred. In contrast, the selected firms have followed a different strategy of entry to the developed countries. In particular, most of these entries were by acquisition followed by joint ventures and wholly-owned subsidiaries. However, a clear dominance of acquisitions and joint venture entries by the selected firms was found in both developing and developed countries (Table 6.1). A similar trend of striking dominance of acquisition and joint venture entries by foreign firms in British Columbia pulp and paper sector has also been found by another study (Hayter, 1981).

The findings on the method of entry suggest a corporate desire to reduce the spatial cost and uncertainties associated with establishing operations in an unfamiliar

Table 6.1: Summary Characteristics of Foreign Direct Investment among the Case Study Firms

Firm	First FDI year (Country)	Number of Foreign Countries	Countries	Entry Method	Post Entry Characteristics (ownership)
Champion International Corporation	1957 (Canada)	3	Canada, Brazil, Belgium	Direct (3) Acquisition (2) Joint Venture (1)	100% , 100%, 99%, 73%, 50%; Divested the Belgian subsidiary in 1977.
International Paper Company	1954 (Canada)	8	Canada, Israel, Colombia, Venezuela, Philippines, Italy, U.K., Japan.	Acquisition (9) Joint Venture (2) Direct (1)	sold Canadian subsidiary in 1981; 50%, 50%, 100%, 10%, 100%, 100%, 51%.
Kimberly-Clark Corporation	1943 (Canada)	12	Canada, U.K., France, Mexico, South Africa, Puerto Rico, Panama, Australia, Philippines, El Salvador, Thailand, Indonesia.	Direct (9) Acquisition (8) Joint Venture (2)	100%, 100%, 100%, 100%, 35%, 43%, 35%, 100%, 100%, 100%, 100%, 87%, 100%, 60%, 50%, 100%, 50%, 100%, 100%.
Scott Paper Company	1954 (Canada)	17	Canada, Mexico, U.K., Belgium, Panama, Brazil, Italy, Japan, Denmark, Philippines, Spain, Argentina, Costa Rica, Colombia, Portugal, Malaysia, S. Korea.	Acquisition (9) Direct (7) Joint Venture (6)	100%, 100%, 50%, 50%, 100%, 100%, 100%, 50%, 100%, 50%, 50%, 100%, 33%, 40%, 100% 100%, 100%, 34%, 100%; liquidated 1 FDI in Canada in 1963; sold Filipino and Colombian subsidiary in 1986.
Westvaco Corporation	1953 (Canada)	2	Brazil, Hong Kong	Acquisition (1) Direct (4)	100%, 100%, 100%, 100%, 100%.
Weyerhaeuser Corporation	1961 (W. Germany)	8	W. Germany, Guatemala, France, Canada, Philippines, Greece, Indonesia, Japan	Acquisition (8) Joint Venture (2) Direct (1)	100%, 67.6%, 100%, 100%, 100% 76%, 100%, 100%, 100%; sold Guactamalan Joint Venture in 1975 and Indonesian subsidiary in 1981.

Note: figures in parenthesis represents number of FDI.

Source: Tables 5.3, 5.6, 5.8, 5.9, 5.11 & 5.14.

environment. It can be argued from this finding that the selected firms have deliberately followed this strategy in order to reduce the uncertainties and spatial barriers facing foreign investment.

The ownership characteristics of the foreign investments at the time of entry are important by providing an indication of control. It was found that entry by acquisition involved a *de facto* transfer of control from the acquired to the acquiring firms. Although there were significant difference in the method of entry to developed and developing countries, relatively insignificant variation in the exercise of control and ownership was found. The majority of the FDI in both developing and developed regions were owned more than 75 percent by the selected firms.

Following entry, there has been a substantial change in the ownership pattern of the foreign operation of the six selected pulp and paper firms in the countries of developing and developed regions. In the developing countries, the number of FDIs in the first ownership category (<50% ownership) has increased where as the number in the second category (50-75% ownership) of ownership decreased substantially over the years since the start-ups. The number of FDI in the third category of ownership (75%+ ownership) remained stable. In the developed regions, the third category has remained considerably similar and the first and second categories decreased. Also, eleven foreign operations, four in developing countries, specifically, Scott Paper's Filipino and Columbian subsidiaries and Weyerhaeuser's joint venture in Guatemala and Indonesian subsidiary, were sold between 1975 and 1986 (Table 6.1). The seven divestments in developed countries comprise five locations under the control of International Paper's Canadian subsidiary, Scott Paper's liquidation of one of its Canadian operations in 1963 and Champion's sale of its Belgian subsidiary in 1977 (Table 6.1). These eleven foreign operations were sold entirely to locally owned firms or to the general public of the host countries. It was revealed that changes in the ownership and control occurred primarily within a broader corporate context of reducing the 'consolidation' of the affiliates and subsidiaries. This shift in ownership pattern, that is the increasing local participation, arguably shows a decreasing level in the extent of foreign control. Yet, few of these divestments occurred in developing countries, this thesis revealed no evidence pertaining to post-entry bargaining and, clearly, no systematic evidence has been provided to support the obsolescing bargain hypothesis.

Limitations of the Study

Finally, several important limitations to this study need to be noted. First, because the analysis is restricted to six firms statistical analysis was made difficult because of the limited overall number of observations. Even when some simple statistical analysis was performed, a lack of observations meant that statistical controls could not be introduced and it was certainly not possible to perform multivariate analysis. Second, the study is restricted to firms based in the U.S. so that the limited generalizations that are offered need not necessary to MNCs based in other countries. In this regard, there is evidence from other studies that the nationality of MNCs may influence FDI behavior.

Third, the study relied entirely upon secondary sources of information. As the case study firms do not organize, maintain or publish data for the benefit of academic research, especially geographic research, the available information could provide only a rough guide to the pattern of foreign investment. In this regard, it was particularly difficult to assess the validity of the concept of obsolescing bargain in the pulp and paper industry. While personal interviews would have provided a richer insights into the foreign investment process, it was not possible to conduct them. Nonetheless, the lack of primary information is an important constraint on this study.

The above limitations qualifies the conclusions reached in this study. These conclusions should be carefully considered and the study should not be seen as an end in itself, but rather as the basis for ongoing and more detailed research into direct foreign investment pattern in the pulp and paper industry. Further research is needed in order to fill the research gap in the field of industrial geography. Personal interviews with the help of a questionnaire would be an important tool of obtaining information on the behavioral aspects of FDI in the pulp and paper industry. Primary information on the policy environments of different host countries pertaining to the forest product sector and the perceived entry barriers and entry advantages by the firms is crucial for a complete understanding of FDI decision making process. Information for the latter aspect, as found in this study, is difficult to obtain from published sources and thus a simple questionnaire survey would be beneficial. The adopted theoretical framework, in this regard, will be an useful framework for such studies.

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Appendix 1 : Summary of Gurantee Scheme for Overseas Investment by Selected MDCs.

	U.S.A.	U.K.	SWEDEN	JAPAN
Date of Effective Establishment	1948	1972	1968	1956-70
TYPES OF RISKS ENSURED				
a)expropriation of risks	X	X	X	X
b)war risks	X	X	X	X
c)transfer risks	X	X	X	X
GEOGRAPHIC COVERAGE				
a)worldwide		X		X
b)developing countries only	X		X (11 only)	
c)countries with bilateral agreements	X			
TYPES OF INVESTMENT COVERED				
a)equity	X	X	X	X
b)loans & advances	X	X	X	X
c)licences & royalties	X	X		
d)other	X			X
LEGAL ELIGIBILITY REQUIREMENT				
a)development effort	X		X	X
b)link with national effort				
c)global ceiling	$7.5b	$650m	$80m	
COVERAGE OF PRINCIPAL & EARNINGS				
a)initial investment	100%	100%	100%	100%
b)reinvested earnings	100%	!00%	X	100%
c)remitted earnings (% of original investment)	200%	200%	8 - 24%	10% annual
COVERAGE IN CASE OF LOSS				
Basis of evaluation	Financial statements phasing out for large & sensitive projects	Financial statement	Phasing out by case basis	Limited amortization
Loss payable	upto 100%	upto 90%	upto 80-90%	upto 90%
DURATION OF COVERAGE	equity=20yrs max. loan=upto 20yrs	upto 15yrs	upto 15yrs excep. 20yrs	upto 15yrs

Source: UNTC, 1985.