Multinational Corporations and the Third World

Edited by
C.J.Dixon, D.Drakakis-Smith, and H.D.Watts

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Preface

The purpose of this volume is to examine the varied roles played by multinational corporations in the economies of the Third World countries. Since the early 1960s there has been an explosion of publications on multinational corporations, however comparatively few have focused directly on multinational activities in the Third World.

The present volume has its origins in the papers presented at a conference held in November 1983 at the University of Birmingham under the auspices of the Developing Areas Research Group and the Industrial Activity and Area Development Study Group of the Institute of British Geographers.

Abbreviations

BIAC	Business and Industry Advisory Committee of the OECD
c.i.f.	Cost, Insurance and Freight
CMEA	Council for Mutual Economic Aid
DC	Developed Country
DoD	Department of Defense (USA)
FDI	Foreign Direct Investment
FMS	Foreign Military Sales
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
ILO	International Labour Office
IRM	Institute for Research and Information on Multinationals
ISI	Import Substitution Industrialization
ISIC	International Standard Industrial Classification
LDC	Less Developed Country
LSI	Large Scale Integrated-circuitry
MNC	Multinational Corporation
MNRC	Multinational Resource Corporation
NIC	Newly Industrializing Country
NIDL	New International Division of Labour
NIEO	New International Economic Order
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
R & D	Research and Development
SIPRI	Stockholm International Peace Research Institute
UNCTNC	United Nations Centre for the Study of Transnational Corporations
UNELA	United Nations Economic Organization for Latin America
UNIDO	United Nations Industrial Development Organization
VLSI	Very Large Scale Integrated-circuitry.

INTRODUCTION

C.J. Dixon, D. Drakakis-Smith
and H.D. Watts

The International Context

Multinational corporations have been of significance in the world economy since the colonial era. Lenin (1916), for example, analysed the increasing flow of capital to the 'colonial and semi-colonial territories' as well as the emergence of multinational production and finance corporations. These developments were explained at the time largely as responses to higher potential rates of return on capital (Lenin, 1916; Bukharin, 1917).

Steady acceleration of this process occurred through the late colonial and early independence periods, although fluctuating world commodity markets acted as a moderating influence. It is really since the 1960s that MNCs (Multinational Corporations) have emerged as a dominant force. During the last twenty-five years the world economy has been characterized by a growing internationalization of production and finance, together with increased concentration of ownership.

Such processes have been closely linked to fundamental changes in production, distribution and communications which have enabled spatial separation of, for example, manufacturing, research, marketing and management across a global scale. A driving force behind these developments was the falling level of profit in many industries, but particularly the labour intensive ones, in most advanced economies. The emergence of the multinational corporations to their present dominant position in the world economy was both an integral part of this process as well as a consequence.

Since the 1960s, therefore, the structure of international finance and production has undergone a qualitative transformation. Analysis of this new structure has given rise to a series of new terms, most notably the New International Division of Labour (NIDL), Newly Industrializing Countries (NICs) and deindustrialization. These terms did not represent a marked departure in the form of analysis of the world economy, rather they were responses to the challenge of understanding a qualitatively different situation. In this analysis multinational corporations were found to be playing an increasingly dominant role and to have formed the focus of an increasing volume of literature.

From the late 1970s the extent of the deceleration in the world economy, which had begun a decade earlier, was exposing basic structural weaknesses. The long post-1945 boom and its financial and production underpinnings were showing signs of collapse. In 1971 President Nixon ended the parity of the US dollar with gold, heralding the breakdown of the Bretton Woods based structure of international finance. This and subsequent events, such as the oil price rises of 1974 and 1979, the collapse of commodity prices between 1979 and 1981, and the drying up of recycled petro-dollars as a major source of international finance, were all symptoms of the changes in the world economy rather than causal factors.

During these events the multinational corporations continued to expand their activities not only in terms of manufacturing or resource exploitation, but also as major sources of finance. The multinationals provided a steadily increasing proportion of the foreign direct investment flowing into the Third World. These expanding financial activities of the multinational corporations, together with those of the multinational banks, have become decisive factors in Third World economic activity.

As a consequence, despite the deepening recession, those Third World countries with extensive and largely multinational controlled and financed manufacturing sectors continued to exhibit rapid rates of growth for both GDP and exports. For example, between 1970 and 1980 the South Korean economy maintained an average annual growth rate of 10.1 per cent for GDP and 37.2 per cent for exports. Even economies with comparatively small manufacturing sectors participated in this growth with Thailand, for example, maintaining an average annual GDP growth rate of 6.9 per cent for the same period.

From 1981, however, the deepening recession affecting the developed economies and the associated growth of protectionism resulted in a collapse of many of the major markets for third world manufactured goods. In consequence, some of the NICs have been affected by major crises of debt, balance of payments and near zero growth; although other NICs, such as Hong Kong and Singapore, have attempted to avoid the worst effects by shifting into the promotion of high-value, high-technology industries.

It is against this background of rapid structural change in the world economy that this present volume of essays examines the activities of multinational corporations in the Third World. But not all influencing factors are global, there are also regional, national and even corporate contexts to take into account.

The Regional and National Context

It is tempting, particularly within broad global analyses based on models of the NIDL or comparative advantage, to see a straightforward dichotomy between the labour intensive production of the Third World and the capital intensive, technologically sophisticated manufacturing of the developed nations. However, the reality of the situation is far more complex, with several of the major production centres in the NICs having developed considerable pools of skilled labour and high technology, albeit through the medium of foreign investment.

At the regional level within the Third World, therefore, marked divisions of labour are now emerging. These are based on differential levels of skill, labour cost and 'risk' assessment by the multinationals. But although the location of industrial investment is primarily determined by MNCs, at the national level state governments can and do exert some influence over those macro-level decisions. From the early 1960s onwards a variety of incentives have thus been offered to MNCs to entice them to certain national or urban locations. The incentives, such as tax holidays, remission of tariffs, or full repatriation of profits, are frequently reinforced by policies aimed at keeping labour costs low, particularly by control of labour organizations, and giving a general impression of political and financial stability. Often such incentive packages are spatially wrapped up into special production zones, known by a varied nomenclature, into which indigenous labour is allowed to move on a daily basis to work and to withdraw to localized areas of labour reproduction when the shift is over, a pattern not dissimilar to the spatial organization of labour in South Africa.

During the 1980s many Third World nations that had pursued policies intended to attract MNC investment have been faced not only with economic but also with political dependence, confusion and chaos. The Philippines, in particular, bears strong witness to such problems. There the growing international disenchantment with the economic and political foibles of the Marcos regime has posed a far more significant threat to its survival than domestic disillusion.

The Corporate Context

The international economy and its regional variations provide the backdrop to the material in this volume, but the internal policy decisions of the multinational firms themselves, as with those of state governments, cannot be neglected. As the particular economic forces that affect multinational companies have changed over the years, so have their individual responses. Indeed, with the deepening of the world economic recession such responses have become more volatile and less predictable. This is particularly related to the fact that the process of global industrialization has not only been spatially uneven but has also been very erratic within the various sectors of economic activity.

Thus in recent years it has become increasingly difficult to generalize about corporate activity either in developed or developing countries and as with so many research analyses, it has been found to be more intellectually and practically rewarding to narrow the focus to geographically and/or productively specific areas. This is, consequently, the approach chosen by several of the individual chapters in this volume.

An Overview of the Contributions

A common and important theme that runs through all of the essays in this book is the realization that a full appreciation of multinational activities in the Third World must incorporate all levels of economic change outlined above, irrespective of the particular focus of the individual investigation. As might be expected this focus changes throughout the volume, with the first three essays, in particular, adopting a more pronounced global perspective. Subsequent contributions concentrate more closely on regional, national, sectoral or corporate levels.

It must also be pointed out that the contributors vary considerably in the nature of their approach towards the activities of multinational firms. Some are essentially specialists in Third World development and tend to have formulated their interest in MNCs because of the impact such firms are having within the development process of individual countries of regions. Other contributors have been more concerned with economic development in a broader context and their interest in the impact of MNCs is directed more towards the rewards they bring to the developed nations in which they are theoretically based. This dual interpretation of the operations of MNCs should not be considered as depriving the volume of a cohesive focus; on the contrary, it offers a balance of views that is too often missing.

In Chapter One Ian Hamilton provides an overview of multinational corporations. This chapter underpins the subsequent ones by providing an introduction to the main trends in multinational development, the emergence of a body of literature on multinational activities and the main areas of debate. The elements of a theory of multinational development and operation are outlined and the inevitability of the development of multinational activity under capitalism is stressed.

Gerald Manners in Chapter Two continues with the broad international perspective but narrows the focus to consider those MNCs that are concerned with the exploitation of non-renewable resources. These corporations, which may be termed MNRCs are a distinctive if varied group. In general they are involved in large-scale long-term investments which makes them much more sensitive to uncertain economic and political conditions than those corporations concerned, for example, with labour intensive manufacturing processes. Over the last fifteen years the MNRCs have become increasingly risk averse; as a result they have reduced their role in the production and trade in non-renewable resources in general and in the Third World in particular. For many corporations higher cost production in more 'secure' developed countries has become a more attractive option than Third World activities.

In Chapter Three Sue Cunningham follows up and elaborates a number of the issues raised by Ian Hamilton in Chapter One. The role of MNCs in the financial and industrial restructuring of Latin America which since the early 1970s has taken place as both a response to, and an integral part of, the changing world economy, is examined. In this discussion particular emphasis is laid on the role of FDI (Foreign Direct Investment) in underpinning the activities of MNCs. Additionally the increasing role of the multinational banks both as lenders and orchestrators of MNC activity is examined. Overall since the early 1970s the industrial sectors of most Latin American states have been orientated increasingly away from 'traditional' or 'basic' consumer good production and towards higher technology sectors in which MNCs are coming to control an increased share.

Since the early 1970s the restructuring of the Latin American economies has resulted in them being much more firmly integrated into the world economy and under increasing control by a small group of OECD states.

Steve Williams in Chapter Four focuses on an area of multinational enterprise that is extremely powerful in its impact and yet little investigated, so well are the activities of the arms trade underplayed and concealed. The chapter documents the dimensions of its production and distribution and indicates clearly the way in which arms manufacture in the Third World is subject to the same constraints and controls as any other MNC activity, condoned only too eagerly by governments anxious to spend their limited revenues on military rather than more basic needs.

In Chapter Five Jeff Henderson employs the theory of the new international division of labour to examine the nature of the American semiconductor industry as it is structured in Southeast Asia. He illustrates that, in contrast to conventional wisdom on this matter, a distinct subregional division of labour has emerged in which cities such as Singapore and Hong Kong play a crucial role. The social, economic and spatial consequences of these new developments are immense but as yet imperfectly understood and Henderson finishes his narrative with some timely pointers for future research directions.

Bob Gwynne in Chapter Six provides an analysis of MNC activity at state level in Latin America which complements the more internationalist perspective provided by Sue Cunningham in Chapter Three. The main focus of the chapter is on the varied and changing roles of MNCs in the association of state, private and multinational activity, frequently termed the 'triple alliance' which typifies much of the recent industrial development in the region. Particular attention is given to the differential reaction of MNCs to the progressive 'opening up' of

Latin American economies to the influences of the world economy.

In Chapter Seven Chris Rogerson and Barbara Tucker bring together two under-researched areas: the emergence of Third World regional based MNCs and the role of MNCs in the commercialization of traditional rural production. The chapter focuses on a longitudinal study of the development of MNC control over the indigenous sorghum brewing activities of Central Africa. This study demonstrates the value of longitudinal research in revealing the activities of MNCs in the Third World. Of specific interest is the documenting of the existence of a small group of Third World based MNCs whose activities are limited to a particular region because of their concentration on the production of commodities that are tied to localized cultural tastes.

Rick Auty in Chapter Eight examines the problems posed in small, relatively resource-rich countries, of trying to ensure that the benefits are distributed fairly throughout society. He makes it clear that the constraints on such actions lie not only with the companies themselves but also with the weak, often self-interested, governments of those countries. His detailed examination of resource exploitation by MNCs in Jamaica, Trinidad and Guyana reveals that it is often in situations where greatest sensitivity and cooperation are needed, that the MNC and the relevant government have the worst relations to the detriment of all.

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Chapter One

THE MULTINATIONALS: SPEARHEAD OR SPECTRE?

F.E.I. Hamilton

In the late 1950s a London theatre successfully staged a play entitled *Stop the world - I want to get off!* A 'zany comedy', it nevertheless conveyed the analogy of one of the most serious challenges to social scientists in general and to economic geographers in particular: namely, trying to catch up with, and then keep abreast of, real-world change and processes of change. Once one has 'caught up' with the world, it is then a major task to unravel the essentials of change from the ever-rising tides both of information and, to an extent, disinformation. There is a need to distance oneself from reality for a while to build up a balanced perspective. By then, though, the real world has changed yet again.

The study of the phenomenon called the MNC (Multinational Corporation) is a classic example of this type of problem. By the mid-1960s, despite Lillienthal's introduction of the term (Lillienthal, 1960:119), a great gap had opened up between the vastly increased real-world significance of MNCs and the very limited interest in, or investigation of, them. Several explanations can be suggested for this unsatisfactory situation. First, political and linguistic barriers in North America and Western Europe largely stultified the dissemination of Lenin's (1916) penetrating pre-Revolutionary analysis of mainly American and German 'monopolies', 'combines' or 'big enterprise' which formed a key part of his *Imperialism: The Highest Stage of Capitalism.* Second, in part this reflected the ascendancy in the West of neo-classical economic theory which had both diverted scientific attention away from the more classical 'real world' economics of Alfred Marshall for instance, and yet also underpinned the thinking behind anti-trust legislation in a number of countries. And third, the rise of Keynesian economics from the 1930s unleashed a growing preoccupation amongst economists, geographers and policymakers with national social and economic issues and their concomitant 'blinkering' to the operation of many international forces.

Nevertheless, about the time *Stop the world - I want to get off!* was playing to full houses in London, the foundations were being laid (*e.g.* Balogh and Streeten, 1960; Chandler, 1962; Dunning, 1958; Hymer, 1960; Seers, 1963) for what became from the late 1960s an explosion of publications in economics and business studies attempting to identify, define, describe, analyse and predict the character, significance, strategies, structures, spread and behaviour of MNCs (for an extensive recent bibliography, see: Hood and Young, 1982). Much of this literature covers the same ground but incremental conceptual progress and major syntheses were made, particularly by Caves (1971); Dunning (1974); Hood and Young (1982); Kindelberger (1969); Parry (1979); Rugman (1981); Vernon (1977). Economic geographers have contributed modest quantitative yet significant qualitative additions to the debates on MNCs (see, for instance: Hamilton, 1976, 1981; Jansen and Van Weesep, 1980; Hamilton and Linge, 1981; Taylor and Thrift, 1982). Nevertheless, while the mass of publications provide in-depth examination of MNCs in general, and a few firms in particular, important gaps remain in our knowledge of past trends and experience; and yet there are signs that the character and behaviour of MNCs and national attitudes to them are again changing under the stressful politico-economic conditions of the mid-1980s.

PROBLEMS OF DEFINITION

A basic problem lies in the continuing debate concerning what is an MNC (see Linge and Hamilton, 1981:48-58). There is neither a single nor a simple definition: criteria such as size of enterprise, degree of 'transnationality', ownership, and focus of control all have pitfalls. There is also confusion over terminology. Before 1974 the term 'transnational' was being applied to a specific sub-set of multinationals, namely to firms whose owners were located in two countries (*e.g.* Unilever which is an Anglo-Dutch firm). The establishment by the United Nations in the mid-1970s of both a Centre and a Commission on Transnational Corporations has probably stimulated the more popular (and confusing) interchangeable use of the terms 'multinational' and 'transnational'. The UN may have preferred the latter to meet objections from socialist countries to the term 'multinational', especially if the work of its bodies was to encompass the overseas activities of enterprises fully or partly owned by CMEA (Council for Mutual Economic Aid) - Bulgaria, Cuba, Czechoslovakia, the German Democratic Republic, Hungary, Mongolia, North Korea, Poland, Romania, the Soviet Union and Vietnam.

Although size is an important criterion for distinguishing multinationals from other enterprises, one should differentiate between absolute and relative size. Certainly the largest firms account for a very significant proportion of the world's stock of foreign investment and they wield substantial economic and political power, with the total sales of many corporations singly exceeding the Gross National Products of many nation states (see Linge and Hamilton, 1981:50). Yet a far wider range of enterprises have become significant as MNCs because of their relative size, *i.e.* their dominance of particular segments of international markets for specialized products or services: many MNCs are quite small in terms of value of sales when measured against the world's top 500 corporations.

This, however, ties in with the problem of the degree of 'transnationality' for a firm to be an MNC. Most authorities would accept production in one foreign country (*i.e.* two countries in all) as a minimum requirement for such a description. Barnet and Müller (1975) argue, however, that 'transnationality' should not be measured only by where firms operate but also by the degree of internationalization of the management, stock ownership and control of foreign affiliates. Ownership chains have become so complex in many corporations that major research must be undertaken to unravel 'who owns whom'. The source of control may be equally elusive not only because majority ownership of an affiliate abroad is not needed to achieve control (which may be possible with as little as 3-10 per cent shareholding) but also because of the increased use by MNCs of non-equity arrangements such as licensing, franchising and co-production in foreign countries without the need for the MNCs to establish a physical presence inside their borders.

There is in reality, therefore, a complex 'hierarchy' of MNCs in size, structure and spatial spread. Yet as Parry (1980: 1) states:

> the stereotype multinational enterprise [demonstrates] (1) a structural involvement in more than one nation market, with a 'significant' proportion of enterprise operations based in more than one nation; and (2) an organizational commitment to decision-making on the basis of global resources available to and global opportunities facing the enterprise.

The MNC thus ties together (and makes interdependent) the fortunes of the areas of the home and host countries where it is located: this is its key geographic significance.

TOWARDS A THEORY OF MULTINATIONAL CORPORATIONS

Classical international capital flow theory explained reasonably well the pattern of predominantly portfolio investments overseas before the Second World War. With the rise of FDI (Foreign Direct Investment) from the 1930s involving international transfers of technology and skills, however, only theories which embraced a range of decision parameters and also took account of the important distinctions between *initial* and *on-going* FDI have sustained much credibility. Thus theoretical support for the international spatial structures of MNC activities must be sought in combinations of:

1. The supply-orientated theory of location allocating production to least-cost centres, a theory which is further underpinned by the basis of comparative costs and advantages in international trade theory.

2. The market-orientated theory of location allocating FDI to profit-maximizing centres and incorporating both the interdependent behaviour of oligopolistic competitors in search of spatial monopoly positions in national markets and the risks of follow-the-leader entry by rivals. This approach is further supported by real-world international trade distortions introduced in host country markets by national tariff and other barriers or by distance and transport time/cost imperfections which may induce MNCs to make either defensive FDI 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 labour immobilities gave birth to the product life cycle theory of international trade, innovations and production which attempts to explain the dynamics of MNC activity from exports to FDI and subsequent changes in the character and location of FDI. (For a discussion see: Linge and Hamilton, 1981:21-3.)

4. Industrial organization theories which stress the significance of firm-specific advantages associated with oligopoly in FDI in general (and when combined with product differentiation, associated with horizontal FDI in particular); economies of scale; and economies of internalization of various transactional costs through the firm's exploitation of its organizational, accounting, marketing or other skills.

5. Marxist analysis which emphasizes the capital deepening process with capital/labour substitution and restructuring in places of rising wages (or real labour costs) and the displacement of more labour-intensive functions to lower labour-cost areas.

6. Finally, market imperfections in host countries introduced by artificial tariffs and other measures may simultaneously offer MNCs second-best profit opportunities and yield a loss of real income to the host country itself (Parry, 1980).

However, as mentioned above, Lenin (1916), following Marx (1848) had already elaborated basic elements of some of these theoretical points in his analysis of the emerging new technology based on monopolistic firms of the early twentieth century.

THE WORLD IMPORTANCE OF MNCs

The Apparent Stability of the Role of Multinationals

Recent research by Dunning (1982) has suggested that FDI was as important in the world economy before 1914 as it became in the 1960s and 1970s; the signs are, however, that as a proportion of total assets, FDI is now much more significant in the mid-1980s than before 1914 or in the 1970s. In reality Dunning's somewhat surprising finding is explained by the very serious 'sag' or decline which occurred in FDI (and hence MNC activity) between 1914 and 1960. Several factors account for this. They may be grouped into two sets of forces. The first, world economic recession in the 1920s and particularly the depression of 1929-32 seriously restricted overseas investment opportunities in all but the newest industries as markets contracted, sales revenue fell, over-capacity grew and sufficient profit rates disappeared. This macro-economic constraint on FDI operated in spatially differentiated degrees, however, mainly because of the operation of the second set of forces, notably state policies in selected countries. Such policies varied from country to country and had differential effects on the world pattern of much reduced FDI:

1. Economic nationalism, expressed in government policies for greater tariff protectionism in some already industrialized countries and in the newly independent states seems to have had complex push-pull effects. On the one hand, particularly in Eastern Europe, it fragmented into small markets or truncated the wider markets of former Empires (especially the Austro-Hungarian market) that could have sustained optimum or minimum efficient facilities; on the other hand, protectionism is some larger developing economies (such as Argentina, Brazil and Chile in Latin America) undoubtedly provided a sufficiently profitable basis to encourage the entry and to support the operation locally of foreign industrial firms.

2. Nationalization of some or all foreign assets in countries experiencing socialist revolutions led to the closure to the operations of MNCs of very large regions of the world, notably the USSR after 1917, Eastern Europe and the Chinese People's Republic in the late 1940s, and some other Third World countries after 1950. State-initiated and managed industrialization in such countries often precluded MNC involvement until recently.

Such policies effectively reduced the attraction of host-country environments for FDI. Yet other policies - in addition to the effects of the 1930's depression - constrained the abilities of the source countries of FDI to invest abroad:

3. Anti-trust policies especially in the USA in the inter-war years broke up cartels which had formed nationally and internationally in some of the newer and profitable electrical and chemical industries and may have reduced the capabilities of individual firms to find the resources to establish production facilities abroad.

4. Restrictions imposed by the US government on the outflow of American capital had similar effects into the 1950s.

5. International political and institutional controls placed on the re-formation and operations of large West