THE EMERGENCE OF THIRD WORLD MULTINATIONALS AND THEIR CONTRIBUTIONS TO ECONOMIC DEVELOPMENT OF THE THIRD WORLD

BY

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ABSTRACT

One recent development in international economic relations has been the emergence of multinational corporations (MNC's) based in Third World countries. During the last decade, a significant number of business enterprises from these countries have established or acquired foreign subsidiaries and joint ventures in other third World countries. In particular, multinational operations and joint ventures are gaining importance in countries such as Hong Kong, India, South Korea, Singapore and those in Latin America.

In the light of these developments, this thesis examines the recent growth process of Third World multinationals. More specifically, it considers (1) the factors which explain their emergence and, (2) their competitive strengths vis à vis MNC's from the developed countries. The former are seen to be governmental policies of both home and host countries, the protection of export markets and the desire for reducing risk through diverisfication. The latter are seen to consist in manufacturing technologies more suitable to the conditions of the developing world, relatively lower operating and overhead costs, greater familiarity with the business environment of Third World countries, and, the perception, in host countries of the Third World, that Third World MNC's are less threatening from an economic, cultural and political point of view.

The thesis concludes with an examination of the beneficial role Third World multinationals have played and might continue to play in developing countries' strategy of strengthening collective and individual self-reliance.

RESUME

L'un des récents développements, en relations économiques internationales a été l'apparition de sociétés multinationales dans les pays du Tiers Monde. Durant la dernière décennie, un nombre important d'entrerpises de ces pays hôtes ont mis sur pied et acquis des filiales étrangères chez leurs acolytes. Les opérations des multinationales prennent de plus en plus d'importance, notamment, en Inde, en Corée du Sud, à Singapour, à Hong Kong et en Amérique Latine.

A la lumière de ces faits, cette thèse examine le récent processus de croissance des multinationales du Tiers Monde. En particulier, elle vise dans un premier temps, à expliciter les facteurs qui ont amené à leur émergence et ensuite comprendre leur force compétitive naissante face aux multinationales des pays développés.

Le premier volet de cette étude s'analyse en regard des politiques gouvernementales des pays hôtes et étrangers, de la protection du marché des exportations et de la volonté de réduire les risques par le biais de la diversification. Le second chapitre s'expose en quatre points: d'abord, il soulève l'avènement de technologies manufacturières plus près des pays en développement comme, par exemple, ces coûts opérationnels et généraux moindres, montre une plus grande familiarité avec le contexte des affaires propres au Tiers Monde et, finalement, explique la perception des pays hôtes qui veut que les multinationales étrangères soient une menace d'un point de vue économique, politique et culturel.

Cette thèse conclue en évoquant le rôle bénéfique joué par les multinationales dans la stratégie du Tiers Monde pour un renforcement collectif et une confiance individuelle solide.

ABBREVIATIONS

ASEAN	-	Association of South East Asian Nations
CARICOM	-	Caribbean Community
CEAO	-	West African Economic Community
DC	-	Developed Country
ECDC	-	Economic Co-operation among Developing Countries
FDI	-	Foreign Direct Investment
GCC	-	Co-operation Council for the Arab States of the Gulf
IDBI	-	Industrial Development Bank of India
JVs	-	Joint Ventures
LAFTA	-	Latin American Free Trade Association (now ALADI)
LDC	-	Less Developed Country
NIC	-	Newly Industrialized Countries
MNC	-	Multinational Corporations
OAPEC	-	Organization of Arab Petroleum Exporting Countries
SADCC	-	Southern African Development Co-ordination Conference
SELA	-	Latin American Economic System
TWC	-	Third World Countries
TWMNC	-	Third World Multinational Corporations
UNCTAD	-	United Nations Conference on Trade and Development
UNDP	-	United Nations Development Programme
UNIDO	-	United Nations Industrial Development Organization

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CHAPTER I

INTRODUCTION

There has been an increasing number of multinational corporations (MNCs) seeking to expand their operations by investing in new regions of the world and strengthening their already existing network of investment and trade. While in the past it was assumed that these corporations originated exclusively in the more economically developed countries of the world, there has been in recent years a growing number of international corporate operations based in Third World nations. Although a great deal of data has been accumulated and analysed with respect to the former, the information available about the latter is still sketchy. The operating premise of this thesis is that the businesses of the underdeveloped countries of the Third World are beginning to constitute a significant and ascending force, and that their presence will have profound effects upon the future patterns of international business activity, as well as upon political and economic relationships among all nations.

On a more specific level, it has been contended that MNCs from such developed countries as the United States, Japan and the countries of Western Europe are facing increasing competition from the MNC's from the Third World countries in all aspects of their enterprises.[1] In addition to an increasing reluctance on the part of many Third World host states, to encourage or welcome investments from the MNC's of the developed nations, it is being discovered that there are several inherent advantages that the corporations from developing countries have over their counterparts from more developed countries. That is, it is believed that there are certain political, economic and ideological features as well as considerable cultural and historical alliances which make MNCs from the Third World more acceptable as international direct investors.

This thesis presents a global survey of the recent growth and current status of Third World multinational corporations. It deals with the origins and scope of, and the reasons for, current Third World MNC operations; it describes the patterns, characteristics and geographical considerations of TWMNC direct foreign investment (FDI), and it outlines the implications of their FDI for South-South cooperation and trade and Third World economic development.

Chapter two briefly relates the background history of TWMNCs and gives an overview of the scope and character of their present operations, the reasons why they are investing abroad, and an indication as to their competitive edge over the multinationals from developed countries.

In chapter three, various theories of the mutlinational enterprise are presented. These theories are then deployed in an examination of the reasons for the internationalization of Third World Corporations.

Chapter four is concerned with the sectoral, cultural and regional patterns of TWMNC investment. It also examines the nature and characteristics of joint-venture partnerships between the Third World countries. Joint ventures are discussed here primarily because they are perhaps the most ideally suited mode of investment for Third World countries; and secondarily, they are also seen as instruments of economic integration for development in Third World countries.

Chapter five examines the chief characteristics of the foreign operations of various multinationals based in selected TW countries. The countries selected are: India, Republic of Korea, the Latin American countries, Hong Kong, and Singapore. An attempt has been made to analyse the different aspects of their FDI in order to determine the extent to which it supports a TWMNC FDI arche type.

Chapter six looks into the contribution of TWMNC to the economic and political development of host and home countries alike. It also examines the impact of home and host government policies and regulations on TWMNC FDI.

The investments from developing country to developing country, and especially to the poorer countries, are among the few concrete examples of 'South-South' cooperation; FDI from TW MNCs seems to offer hope of less dependence on firms from the rich countries of the north for the technology needed for development. The U.N. Organizations, such as United Nations Conference on Trade and Development (UNCTAD), United Nations Industrial Development Organization (UNIDO), the U.N. Centre on Transnational Corporations (UNCTC) have continued to sponsor work on this subject. They have emphasized the role of "developing joint ventures" in self-reliance for the South and in contributing to the realization of the New International Economic Order. In the light of these developments, an attempt is made in Chapter seven to evaluate the potential role of TW MNCs and joint ventures in the development of economic co-operation and "South-South" trade.

Some conceptual definitions might be added at this point. The references to the Third World is meant to include all non-socialist countries in Africa, Asia, and Latin American which are not members of OECD. While these states display marked differences from each other, they nevertheless share a set of common structural properties that justify their inclusion in a single conceptual category. The term multinational corporation is based on a United Nations definition, to include all enterprises which own production and/or service facilities in one or more countries other than the one in which they is based. Thus, the expression "Third World multinationals" refers to firms that are located in one of the Third World states and that own production and/or service facilities in either developed or developing states.

FOOTNOTES - CHAPTER I

1. See D.A. Heenan, and W.J. Keegan, "The Rise of Third World Multinationals (1979) Harvard Business Review (Jan-Feb) at 101-9.

CHAPTER II

THE GROWTH OF THIRD WORLD MNCS

The internationalization of economic activity has taken many new and dynamic forms in recent years. Although the phenomenon is not particularly new, over the last decade there has been a less expected and more dynamic emergence of multinational corporations from the third World states. The first recorded instance of a Third World state investing abroad dates back to 1890. An Argentinian textile manufacturer, Alparagatas, set up an affiliate in Uruguay, and followed it up with a similar plant in Brazil in 1907. By the 1930s other Argentinian firms, including Siamdi Tela (mechanical engineering) and Bunge y born (grain trading, finance and miscellaneous manufacturing), had also established branches in other Latin American countries.[1]

These cases were unusual and did not herald the appearance of Argentinian industry as a leading force in Third World industrialisation or multinationalisation. In the past quarter-century, the pace of Argentina's economic growth flattened for numerous political and economic reasons. It has now become a relatively stagnant (if technologically advanced) industrial and trading nation in the community of 'newly industrialising countries'. Of its early multinationals, Alparagatas has been reduced to a tiny shareholder in its major affiliate in Brazil; Siamdi Tella has gone into government ownership because of sustained losses; and, Bunge y Born has effectively shifted out of Argentina to its major base in Brazil (where it controls over 50 firms with total sales of over $1.5 billion).[2] For many decades now these Argentinian enterprises have not really been multinational corporations in the normal sense of the term, that is, with the parent company supplying technology and skills to its affiliates, making strategic decisions and exercising corporate control.[3] After the initial injection of capital and know-how, the different branches have gone their different ways. And, given the prolonged crisis in their original home country, the affiliates have tended to grow faster and larger than their parents.[4]

These cases apart, the real growth of Third World direct investment started in the 1960s and began to gain momentum in the 1970s.[5] Today, a large number of developing countries - between 30 and 50 - can claim to have at least some companies which have direct investments abroad. It is difficult to quantify the total amounts of investment involved with any accuracy, because many countries do not collect data on their overseas direct investments. In any case, many such investments are undertaken without the knowledge of the authorities in order to avoid foreign exchange and other regulations. And, for the countries which do keep records of foreign investments, it is impossible to separate direct investments by national companies from those made by affiliates of foreign firms or by 'expatriate' firms[6] (for instance, British firms headquartered in Hong Kong).

In spite of the above difficulties, a number of studies in recent years enable us to identify which countries are the leading exporters of private capital and what their areas of specialisation are.

The largest foreign direct investor in the Third World is Hong Kong, with over $2 billion worth of equity held abroad (including some in the People's Republic of China).[7] A substiantial proportion of this, however, is accounted for by British 'expatriate' firms such as Jardine Malheson, which have investments all over the world in a variety of manufacturing, real estate, trading, banking and other activities.[8] However, indigenous Chinese enterprises are also very aggressive investors abroad and a very rough estimate[9] (by Professor Edward Chen of the University of Hong Kong) puts their capital stake at $600-800 million.

This estimate makes Hong Kong a slightly smaller indigenous investor than Brazil, whose overseas capital stock (excluding banking) was estimated at over £1 billion.[10] One interesting point of comparison between the two worth raising now, ~~however~~, is that a major part of Brazilian overseas investment is accounted for by the giant state-owned enterprise, 'Petrobras', whereas Hong Kong overseas investment is entirely in the control of private enterprises, and by enter prises which are not very large, even by Third World standards.[11]

A capital exporting developing country which is almost as important as Brazil is Singapore - though its investments are highly concentrated in contiguous Malaysia[12] (of which it was historically a part). Singapore, like Hong Kong, has MNCs, owned mostly by relatively small ethnic Chinese enterprises. However, these enterprises are less dynamic (in terms of the amount, spread and diversity of activity)[13] than their Hong Kong counterparts. Singaporean industry is generally more skill based, and makes greater use of high technology and capital- intensive machinery than the industry of Hong Kong's, and so may be expected to have a relatively greater foreign presence.[14] However, over three-quarters of Singapore's industrial output, and over 90 percent of its manufactured exports, come from foreign-controlled enterprises, as compared to under one-quarter for Hong Kong.[15]

There is, in addition, a whole group of middle-income countries which have foreign investments of around $50-100 million each; including, Taiwan, Argentina (excluding its early investments), Mexico and Venezuela.[16] These countries of the Third World are all involved in international production, and they lead the Third World in this activity. About half of these investments are in manufacturing, including machine tools, food, and automobiles.[17]

A country which is a relatively large foreign investor, but does not fit into the broad pattern of relatively high per capita national income levels associated with oveseas investment, is India. With income levels far lower than in many other TWCs,[18] India has foreign equity of Over $100 million.[19] Even more surprisingly, India's foreign direct investment has far surpassed the inflow of new foreign capital in the 1970s - certainly not a pattern common to TW countries.[20]

To summarize, the emergence of the Third World multinational is a significant phenomenon. It encompasses a large range of countries. The amounts involved are still relatively small; probably the entire stock of Third World direct foreign equity is not more than $ 10 billion.[21] The great bulk of this investment is directed to other developing countries, though recently quite a number of investments in manufacturing (and several in distribution, banking, and hotels) have been made in the developed world.

II.1. The Nature of Industrial MNCs from Developing Countries

Much has been written recently about the specific advantages that Third World firms may have in investing abroad, and in competing with local firms as well as with the affiliates of MNCs from the developed countries. Before reviewing the current state of information in this respect, however, it is convenient to discuss briefly the sectoral patterns of Third World foreign investments.

There are marked differences among the major Third World capital exporting countries in relation to the proportionate share of manufacturing in their total foreign direct investment, and also, in the sorts of manufacturing industries in which they reveal their strengths.

For example, over 95 percent of Brazil's overseas capital is invested in oil exploration, construction, and agricultural activities, while only half of Argentinian investment is in non-manufacturing enterprise. A significant but unknown proportion of Hong Kong and Singapore investments are in the service sectors. And, perhaps surprisingly, about 5 percent of Indian investments are in hotels, banks, insurance and trading ventures.[22]

Looking only at the manufacturing industries, the major Third World investors are Hong Kong, Singapore, India, South Korea, and Argentina. The other TWCs such as Taiwan, Brazil and Mexico have relatively few manufacturing investments overseas.[23] The four leading TW MNCs show quite different patterns of manufacturing activity abroad. The differences arise both in the nature of activity undertaken as well as the extent of indigenous embodied (capital goods) and disembodied (know-how, managerial skills, marketing and so on) techologies involved in the overseas ventures. The differences typically reflect the size of capital exporting economy, the diversity of its own industrial base (in particular, the development of the capital goods sectors) and its level of indigenous technological developments.

Hong Kong invests abroad mainly in the simpler of its major export products - textiles, garments, plastic goods and simple consumer electronics. Those of its export products demanding more intensive use of skills and marketing - toys, fashion garments, watches and the like - do not figure largely in its overseas investments. Essentially, the overseas affiliates of the Hong Kong firms are engaged in the production of relatively standardized products with well-diffused technologies. These face increasingly severe competition from those new entrants into world trade and industry which enjoy the advantage of lower labour and land costs.[24] Thus, Hong Kong enterprises are forced to locate in those very countries in order to take advantage of lower production costs. This shift is further encouraged by protectionist policies in Hong Kong's major markets, which allocate quotas for textiles and garments by country: once the home (Hong Kong) quota is filled, exports can only take place by producing in other countries with unfilled quotas (and less competitive local manufacturers).[24a] Products which require greater design, marketing and entrepreneurial skills are manufactured in Hong Kong because these skills are more difficult to transfer abroad, and also because protectionist and competitive pressure are relatively less on these products.[25]

Hong Kong's foreigndirect investment is unusual in that it tends to be export-oriented, rather than import-substituting, and in that it contains relatively little embodied technology from the home country. Hong Kong investors typically source their equipment worldwide, (for secondhand as well as new machines), and have very limited capabilities for the design and manufacture of capital goods at home. Though some minor modifications are often made to machines sent to overseas affiliates, the basic production technology is usually imported. The technological contribution of Hong Kong investors is restricted to efficient production engineering (know how), and seldom includes basic equipment or plant design and manufacture (know why). Since efficient production engineering is unlikely to provide any special competitive edge in international markets, its monopolistic advantages must lie elsewhere, perhaps in good management and intimate knowledge of export markets.[26]

Singapore is a small investor in overall terms; but a large investor in manufacturing industry. Most of its activity occurs in Malaysia, with which it has close historical, commercial, and ethnic ties, and in neighbouring countries. Singapore's industries are generally more skill-based, high technology and capital-intensive. Singapore-owned firms known to have foreign manufacturing investments or interests include Intrace, a government-owned trading company, and

Acma, a manufacturer of refrigerators and home appliances. In techonogical terms, Singapore's foreign investors are similar to those from Hong Kong. Singapore is into heavier and technologically more-advanced industries than Hong Kong, but it does not have a diverse capital goods industry to serve the local manufacturing industry. Its foreign investors rely, in consequence, on imported technology, and essentially complement it with their entrepreneurial and managerial skills.[27].

Argentina's manufacturing investments are firmly rooted in local technology and capital goods, and the products are directed mainly at import substitution in the host country markets. Given Argentina's strong base in food products and engineering, the majority of its overseas activities are in these two sectors, supplemented by an unusually active and dynamic (but not truly innovative) indigenous pharmaceutical industry.[28].

Indian manufacturing MNCs are rather similar to those of Argentina, in terms of the high indigenous technolgical content and the main emphasis on import sustitution in the host economies. There are, however, noteworthy differences. Indian investments are spread over a much broader spectrum of activity than those of Argentina. Indeed, they span the widest range of technologies of any Third World country.[29] The largest sector is textiles and yarn, accounting for a quarter of total capital held abroad. This is followed by paper and pulp, engineering of various types, food processing and chemicals. In these broad categories, there are individual investments which are unexpected if one believes that Third World MNCs are confined to labour-intensive, small scale, low-technology activities.[30] The largest pulp and paper mill in less-developed Africa is an Indian venture; Indian firms are assembling their trucks in Malaysia, and their jeeps in Greece; one firm makes precision tools for the electronics industry mainly for export, in Singapore, while another manufactures mini computers there; two of the newest rayon plants in Indonesia have Indian participation; Malaysia's largest integrated palm-oil fractionation facility is controlled by an Indian firm, as is Thailand's sophisticated carbon black plant, and an Indian state controlled firm has taken a share in a machine tool manufacturing venure in Nigeria; and so on.[31]

Indian industrial investors abroad are required to contribute their equity in the form of plant and equipment from India. This ensures that the manufacturing technology used (or a major part of it) has been transformed from India. Most of the technologies have, of course, been imported by India in the first place, but over time they have assimilated and adapted to Indian conditions, and occassionally changed in significant ways to perform better in those conditions than developed country technologies.[32]

The Republic of Korea (henceforth called Korea) is no longer only a recipient of foreign direct investment. It also is emerging, slowly but steadily, as a source of foreign direct investment. The country now occupies a prominent place among a small group of third world nations (Argentina, Brazil, Hong Kong, India, Mexico, Singapore and Taiwan) whose firms have been establishing foreign direct investment, thereby earning the label of "multinational".[33] The total number of overseas joint ventures and subsidiaries established by Korean multinationals was 298 by the middle of 1980, and their total volume of overseas investment was $246 million (U.S.).[34] Korean multinationals have invested in trading, warehousing, transportation, mining, forestry, and construction. Manufacturing accounts for only 12 percent of the overseas projects and the total volume of FDI in manufacturing was $31,266,000 as of June 1980.[35] This volume of investment is not a large sum considering overseas investments by firms from industrialized nations, but is also not an insignificant amount in the context of the size, resources, and state of economic development of Korea. The Korean government has authorized 24 overseas manufacturing investments in a wide range of industries including garment, cement, electric cables, motors and diesel engines, paper, plywood, artificial chemicals, and shoes. Several Korean firms invested in manufacturing in developed regions such as North American and Europe. About 50 percent of all manufacturing investment was in South East Asia, 15 percent in North

American, 12 percent in the Middle East, and 8 percent in Africa.[36]

There are, therefore, interesting differences between developing countries in the nature of their foreign investment which can be traced to the nature of their own ecomony and home government polices.

II.2. The Competitive Edge of Third World MNCs

The prevalent view of Third World mutlinationals is that their competitive edge lies in small-scale, labour-intensive technologies; in manufacturing undifferentiated, price-competitive products; and in possessing cheap, skilled management which is particularly adept at setting up and running enterprises in the primitive environments of less developed countries.[37]

There is a great deal of validity in this portrayal of Third World MNCs. There can certainly be found numerous examples of investors who have mastered technologies no longer in use in developed countries, or adapted them to the conditions prevalent in less-developed ones. Their scale of operations is often fairly small, and many of their products are unbranded, or sold mainly because of their cheapness; their managers and technicians are certainly paid less than their expatriate counterparts from the rich countries.[38]

However, it would be unwise to generalize from these observations and say that small scale, low technology, labour-intensive and cheap management are the only sources of competitive advantage vis-à-vis the developed country MNCs. There are several cases of Indian overseas investment which have been undertaken in direct competition with other MNCs, and whose scale and technology are practically indistinguishable from their developed-country counterparts. Even where technologies have been adapted or descaled, Western MNCs have often already undertaken similar adaptations in the home countries of the Third World MNCs and in LDCs in which they have long established operations. There seems to be no a priori reason why a local firm is better able to transfer its adaptations than a Western MNC with similar, but even broader, experience of adapting technologies.[39]

Cheaper skilled manpower also does not appear to be a very substantial cost advantage to Third World MNCs. Most Indian investors, for instance, tend to keep only two to three managers in their affiliates once they have been fully established. The edge that this can give to an affiliate with substantial sales is really very marginal.[40]

These findings do not lead to a very clear or strong theory of monopolistic advantages possessed by Third World MNCs. It would appear the the advantage varies greatly from case to case - in some it is a unique set of minor innovations to the product or process which it is difficult for other firms to copy, while in others it is a strong base in marketing a particular product. In many ways, Third World

~~MNCs~~ do not differ much from the MNCs of the developed countries.[41]

This must not be interpreted to mean that the two are substitutes. Developed country MNCs can do most things which Third World MNCs can do, but reverse is not centrainly true. Third World MNCs may be able to reproduce efficiently certain technologies possessed by developed countries, but they cannot match them on the frontiers of innovation.[42] Their capabilities rest very firmly on the conditioning and experience of their home countries, and their small size and lack of massive technologial resources necessarily mean that they cannot compete in fast-moving, very large-scale technologies, or in products which are geared primarily to very high incomes or sophisticated tastes (though Hong Kong firms are beginning to attack the high fashion market).[43] All this means that Third World MNCs have much smaller 'proprietary assets' to protect when they go abroad. This is why it is universally observed that they are more prone to enter into joint ventures with local firms than developed country firms. Increasingly, they are also eager (and sometimes able) to enter into joint ventures with developed country MNCs, an ideal arrangement for them to gain access to advanced technologies and well known brand names.[44].

The absence of strong proprietary advantages has been interpreted by Luis T-Wells, Jr.[45] to imply that individual Third World MNCs will not last long in the competitive jungle of international production. However, he is of the opinion that the FDI of Third World MNCs will continue apace, albeit with individual firms withdrawing from abroad and being replaced by new aspirants.

According to S. Lall,[46] the future of Third World MNCs is bright for several reasons. First, some Third World MNCs do possess unique technological advantages. These may well be based on 'minor innovations' but they are derived from peculiar challenges (mainly of finding the right materials and components in their home economies) faced by that particular firm and are costly for other firms to reproduce.[47] Second, there are many technologies which do not change very rapidly, making it possible for Third World firms to keep up with international developments. Third, the fact of 'being first' in a particular market gives the entrant an advantage over others, and this may be exploited by Third World firms in several small markets which the larger MNCs do not bother with. Finally, Third World MNCs can always replenish their technological stock, where their own efforts are inadequate, by licensing technologies from developed countries or entering into joint ventures with DC MNCs. In other words they can become complements to, rather than competitors of, developed country MNCs where their own technologies are uncompetitive, but they are able to set up and manage the production process efficiently.[48]

Some of the arguments advanced about the ultimate demise of Third World MNCs have a familiar ring about them. The same was said of developing country exporters when they started to enter new and sophisticated areas of production (and earlier, of 'cheap shoddy Japanese goods'). But the new producers are still there and moving from strength to strength, forcing the advanced countries to adjust to evolving patterns of comparative advantage. Foreign investment is simply another facet of the competitive edge which is first exploited in export markets, and recent history give us little reason to expect it to be a transient phenomenon. Third World MNCs are here to stay, and they will graduate to become First World MNCs as their home countries grow into major industrial powers.[49]

A final note on a new form of overseas investment by some TWCs which is also expected to grow in the future: the taking of equity shares in some high technology firms in developed countries in order to obtain direct access to their technology. Hong Kong, Taiwan, and Korea have already undertaken investment of this sort. It is not yet known how effective they have been in transferring the basic technology to their home countries; but in principle there is no reason why small, specialized producers (without strong international interests) in the developed countries should resist the offer of equity participation from the Third world countries. Even large firms, facing financial difficulties, may look to the new giant corporations in the TWCs for co-operation. Of course, given the nature of the innovation process, the newest and most valuable technologies may not be given to equity shareholders who might become strong rivals.[50]

FOOTNOTES - CHAPTER II

1. See D.A. Heenan and W.J. Keegan, "The Rise of the Third World Multinationals", (1979) _Harvard Business Review_, Jan-Feb. pp. 101-9; also see, L.T. Wells, Jr., "The Internationalization of Firms from Developing Countires", by in T. Agmon and C. Kindleberger (eds.), _Multinationals from Small Countries_, (Cambridge: MIT Press, 1977) at 40-45.

2. See E. White, "The International Projection of Firms from Latin American Countries" in K. Kumar _et al._ _Multinationals from Developing Countries_, (Lexington; D.C. Heath, 1981) at 155-188.

3. See G.J.R. Linge, and F.E.I. Hamilton, "International Industrial Systems", in F.E.I. Hamilton and G.J.R. Linge (eds) _Spatial Analysis, Industry and the Industrial Environment: International Industrial System;_ (Wiley, Chichester) at 1-117.

4. _Ibid._

5. See L.T. Wells, Jr., _Third World Multinationals: The Rise of Foreign Investment from Developing Countries_, (MIT Press, 1983) at 20-25.

6. _Ibid._

7. See E.K.Y. Chen, "Hong Kong Multinationals in Asia: Characteristics and Objectives" in K. Kumar _et al._ _Multinationals form Developng Countries_ (Lexington, D.C. Heath, 1981) at 79-100; also see, S.P. Magee, in J. Bhagwati, _et al._ _The New International Economic Order_, (Cambridge: MIT Press, 1977) at 80-85.

8. _Ibid._

9. _Ibid._

10. See, United Nations Centre on Transnational Corporations - _Transnational Corporations in World Developments: Third Survey_ (U.N., New York, 1983) 60-69.

11. See K. Kumar _et al._ _Multinationals from Developing Countries_, (Lexington, D.C. Heath, 1981) at 79-99.

12. See R. Agarwal, "Emerging Third World Multinationals of Foreign Operations of Singapore Firms", in (1985) Contemporary South East Asia, Vol. 3, at 208.

13. Ibid.

14. See D.J. Lecraw, "The Internationalization of Firms from LDCs: Evidence from the Asian Region", in K. Kumar et al. Multinationals from DevelopingCountries, (Lexington, D.C. Heath, 1981) at 37-52, see, Direct Investment from Less Developed Countries; (1977), 29(3) Oxford Economic Papers, at 442-457; "Multinationals Corporation in ASEAN/South Korea/Hong Kong, A Descriptive Picture".

15. Ibid.

16. See United Nations Economic and Social Council - Transnational corporations in World Development: A Re-examination, (United Nations, New York 1978) at 55-68.

17. Ibid.

18. See S. Lall, "The Emergence of third World Multinationals: Indian Joint Venture Overseas" - (1982), World Development, 10(2) 127-146.

19. Ibid.

20. See Indian Investment Centre; Report of Workshop on Indian Joint Ventures Abroad: An Appraisal, (IIC, New Delhi, 1981) at 20-36.

21. See M.J. Williams, Development Co-operation effects, and policies of the members of the Development Assistance, (Committee OECD, Paris, 1981) at 244-246.

22. Ibid.

23. S. Lall, "The Rise of Multinationals from the Third World" (1982) vol. 5(3) Third World Quarterly at 618-626.

24. See E.K.Y. Chen, "Hong Kong Multinationals in Asia: Characteristics and Objectives" in K. Kumar et al. Multinationals from Developing Countries, (Lexington, D.C. Heath, 1981) at 79-99.

24a. Hong Kong investment in Singapore textiles in the 1960s was meant to overcome the quantitative restriction imposed on textiles exported from Hong Kong - see P. Luey - '*Hong Kong Investment*' in *Foreign Investment and Industrialization in Singapore* by Hughes and P.S. You (eds) (Australian University Press, 1969).

25. See *World Development Report*, (World bank August 1981) at 15.

26. See B.I. Cohen, *Multinationals Firms and Asian Exports* (New Haven: Yale University Press, 1982) at 40.

27. See K. Kumar, "Singapore Multinationals" in (1985) *Columbia Journal of World Business* at 35-42.

28. J. Katz and B. Kosacoff, "Multinationals from Argentina" in S. Lall *et al.* '*The New Multinationals: The Spread of Third World Enterprises* (John Wiley & Sons, 1983) at 137-157.

29. *Ibid.* at p. 21-47.

30. *Ibid.* at p. 50.

31. *Ibid.* at p. 55.

32. *Ibid.* at p. 65.

33. See S.H. Jo, "Overseas Direct Investment by South Korean Firms: Direction and Pattern" in K. Kumar *et al.*, *Multinationals from Developing Countries*, (Lexington, D.C., Heath 1981) at 53-78.

34. *Ibid.* at p. 77.

35. *Ibid.* at p. 76.

36. *Ibid.* at p. 70.

37. See C.P. Kindleberger, *The International Corporation* (Cambridge, MIT Press, 1970) at 79-100.

38. See R.E. Caves, "International Economics: The Industrial Economics of Foreign Investment" (1971) *Economics*, Vol. 38 at 1-27.

39. See S. Lall, "Monopolistic Advantages and Foreign Involvement by U.S. Manufacturing Industry", in (1980) *Oxford Economic Papers*, at 102-22.

40. See S. Lall, _Developing Countries in the International Economy_ (London: Mcmillan, 1981) at 27-37.

41. See S. Lall and N.S. Siddharthan, "The Monopolistic Advantages of Multinationals: Lessons from Foreign Investment in the U.S.", in (1982) _Economic Journal_, at 668-83.

42. _Ibid._

43. See D.T. Lecraw, "Direct Investment by Firms from Less Developed Countries", (1977) _Oxford Economic Papers_, at 442-57.

44. See R.G. Agarwal, "Third World Joint Ventures: Indian Experience" in K. Kumar _et al._ _Multinationals from Developing Countries_ (Lexington, D.C. Heath, 1981) at 115-131.

45. See L.T. Wells, "Foreign Investors from the Third World" in K. Kumar _et al._ _Multinationals from Developing Countries_ (Lexington, D.C. Heath 1981) at 23-36.

46. _Supra_, note 23 at 622.

47. _Ibid._ at 623.

48. _Ibid._ at 624.

49. _Ibid._ at 625.

50. S. Lall, '_South-South Economic Co-operation and Global Negotiation_' _in Multinationals: Technology and Exports_ New York, St. Martin's Press (1985) at 203.

CHAPTER III

THEORIES OF MULTINATIONAL CORPORATIONS

Before advancing too far in the discussion of the internationalization of Third World firms, a brief economic analysis of current theory regarding multinationals should be made. The contemporary view starts with the premise that overseas production involves additional costs arising from additional transport and communication requirements, and from legal, linguistic, cultural and political differences. Thus, the firm venturing abroad must have some competitive advantage over the national firms based in the host country which could benefit more from direct investment than from exports, licensing or portfolio investments. Much effort, both at the theorietical and empirical level, has gone into the identification of these competitive assets.[1] Broadly speaking however, the specifics of these theories can be classified under two headings: ownership and location. The former concerns the structure, possessions, or capabilities of a firm, while the latter concerns the conditions and the system properties of the host country that would attract a foreign investment.[2] These can also be described as push and pull factors.[3]

Within the ownership category, technology undoubtedly remains the most important advantage of a multinational corporation. Technology, in this context, means knowledge and skill regarding products and production processes. Multinationals often enjoy oligopolitic positions in the goods and services which they produce.[4] Even when manufacturing simple standardized products, they are able to differentiate themselves from others by minor physical variations or subjective distinctions created by advertising and marketing skills.[5] Companies like Coca-Cola, Kellogg, or Nestle have been able to establish worldwide operations partly on the basis of product differentiation. More importantly, overseas expansion appears to be closely related to the ownership of advanced, operating technologies. It is the ownership of production technologies that leads host countries to attract foreign direct investment. Empirical evidence[6] shows that multinational firms operate largely in research intensive industries and that research intensive firms tend to internationalize. American and European based multinational firms have been able to acquire or develop product and process technologies through research and development, and also through experience: so called "learning by doing".

Marketing and managerial skills can also contribute to the internationalization of a firm. Caves[7] has argued that product differentiation, under which he includes both technological intensity and marketing skills, is the main reason for foreign direct investment. Firms move to foreign countries on the strength of their specific management skills or to exploit managerial potential that remains underutilized at home.[8]

The other two important competitive assets of multinational corporations are their easy access to capital resources and their control of raw materials. Multinationals tend to be large firms with vast assets and good reputations; therefore, they are able to raise the necessary capital resources both in home and host countries and on better terms than single-nation enterprises.[9]
As well, they are in a better position to tap international financial markets. Finally, Control of raw materials can also put a firm in an advantageous position over the firms in host countries. Control can arise out of a firm's advantages in production, processing, transportation, and sales of raw material.[10]

Several other sources of a firm's competitive strength are their large size, their ability to diversify risks, and the existence of favourable government policies. Whatever the specific sources of a firms competitive strength might be, the fact remains that multinationals are oligopolies operating under imperfect market conditions; their monopolistic or oligopolistic advantages are similar to those of leading firms in domestic markets.[11]

"Ownership specific advantages"[12] are necessary, though not sufficient conditions for overseas direct investment. They cannot explain why a firm seeks to exploit its competitive assets through direct investment and not by licensing or exports. Nor do they account for the location of foreign subsidiaries and plants. For this purpose, researchers have introduced many "location-specific" variables that include, for example, trade barriers, low labour costs, availability of raw materials, market size and growth, and the policies of host governments. Thus, high tariffs, import quotas, product standards imposed by importing countries, and high transportation costs always provide firms with incentives to invest in such countries.[13] The prevailing low level of wages also attracts foreign investors: many American and European firms have established their overseas sourcing operations in many South East Asian Countries for this reason. The availability of large and/or growing markets in host countries also attracts many firms. Perceived political and economic stability always remains an important consideration for foreign investors. It should be noted, however, that the location - specific factors are largely the same for national and foreign firms. The complex interaction between these factors and ownership-specific advantages explains why firms expand overseas behavior of firms.[14]

The above mentioned explanatory variables have all been presented in the context of research on U.S. - and European - based multinationals. However, the few available studies of Third World multinationals suggest that many of the variables have very limited value in predicting their internationalization.

In the following section these two variables, namely the ownership-specific and location specific, will be examined inorder to ascertain their value in explaining the internationalization of Third World multinationals.

III.1. Ownership Specific Variables

Third World multinationals do not manufacture new products, but rather sell those products for which technology has been already standardized.[15] In fact, these firms do not usually have the advantages of familiar brand names and consequent consumer loyalties. There are exceptions, however. For example, Tatung, which is based in Taiwan, has acquired good visibility and its brand name is becoming well known in several Asian countries. As a rule, Third World firms do not have access to the latest manufacturing technologies and, in fact, do not operate in technology-intensive industries.[16] Also, they lack strength in the areas of marketing and management skills, at least in comparison with multinationals from industrialized countries. Differences based on firm's national origins can however, be delineated with respect to this factor. For example Indian firms, which have long been accustomed to operating in a protected environment, and have been weak in marketing[17] while Korean firms, with their strong ties with general trading companies, show good marketing skills.[18]

Access to capital resources, which has been an important asset of American and European firms, is simply not relevant to the assessment of TW companies potential for expansion. Most of the developing states suffer from a persistent shortage of foreign exchange, creating problems for their firms. A recent study of Indian joint ventures in Malaysia, for example, reveals that their cash shortage threatens their very survival.[19] India is perhaps the worst case, but the foreign exchange situation of firms from South Korea or Taiwan, is not always entirely satisfactory.[20] Although most firms from developing states do not have privileged access to raw materials, they have recently begun to invest in resource development projects.[21] Thus it is suggested that the type of ownership-specifc variables usually stressed as assets of the multinational corporation can hardly explain the overseas expansion of Third World firms.

What, then are the ownership-specific advantages of the TWMNCs? These seem to lie in the suitability of their operating technologies, lower overhead and expatriate payments, familiarity with the conditions and problems of developing countries, and their less threatening posture. Perhaps the most important strength of Third World firms lies in their less advanced, though not necessarily less efficient, manufacturing technologies, which function reasonably well in other developing countries.[22] Although most, if not all Third World multinationals acquire manufacturing technologies from industrialized states under various kinds of arrangements, ranging from collaboration to outright purchase. These technologies, upon acquisition are adapted with respect to the distinctive characteristics of developing economies.

Wells has suggested that these adaptations are generally of four kinds.[23] First, firms introduce innovations enabling them to use machinery on a smaller scale without sacrificing efficiency. Since markets in developing states are usually limited, large plants are not economically viable. Second, firms make modifications that permit multipurpose use of the same machinery and equipment. This is again necessitated by the small size of the market and the general scarcity of capital resources.

Third, adaptations are sometimes made to enable maximum use of available raw materials. Fourth, operating technologies are made more labour-intensive by substituting manual labor for machines wherever possible, without raising cost. These kinds of adaptations make the technologies at the disposal of Third World firms seem quite attractive to developing host states.

In this connection, Lall[24] has identified three stages of what he calls "technical learning" by firms. The first stage is "learning within a given technology". Employees contribute to the greater efficiency of the imported technology by minor changes and adaptations dictated by the exigencies of the situation. However, as a firm's workers and engineers grapple with the machinery and equipment (often without the assistance of foreign experts) they gain valuable insights and experience that enable them to manufacture mechanical components which improve the equipment"s performance. This stage is labelled by Lall as "learning the embodied technology". Here he distinguishes between learning by imitation and learning by design; the former implies that the firm simply reproduces the machinery's components, while the latter suggests that the firm is able to modify them. The third and final stage comes, according to Lall, when the firm is able to reproduce the entire technology that it imported earlier in a functional plant. Many of the firms from several developing countries already seems to have reached the third stage of technical learning in many industries.

It is indeed misleading to suggest that all Third World firms compete in international markets on the basis of adapted technologies. Quite a few have been able to develop altogether new products and production processes. For example, countries like Brazil, Korea, Mexico, and even Taiwan have been able to make significant progress in the heavy machinery and tools industry.[25] India has accomplished breakthroughs in agriculture and in both small and large industrial sectors, which its firms have begun to utilize in their overseas expansion drive.

The second and perhaps equally important asset of some Third World multinationals is their lower overhead and expatriate costs, which are passed on to consumers.[26] The firms from industrialized states usually make huge investments in factory sites, offices, housing and other amenities for their managerial and technical staff. Moreover, the cost of expatriate staff is usually high for multinationals from developed states. These firms not only provide remuneration according to the standards of their home countries but also give various kinds of allowances to their expatriate employees to induce them to leave familiar surroundings for some exotic, unknown environment. These firms also provide slightly higher wages for their local employees compared to the local firms.[27] All these items are reflected in the cost of production. Two studies have indicated that the case is different with Third World firms,[28] which typically make a minimum investment in posh buildings, imposing offices, and attractive work facilities, and provide moderate wages to their expatriate staff. For example, it is estimated that it costs a U.S. firm about U.S. $100,000 dollar to keep a middle-level executive in Malaysia. The corresponding figure for an Indian employee hired by an Indian firm is about $20,000. Even when Third World firms keep more expatriate staff than their counterparts from the industrialized states, their overall expenditures are lower.

The lower costs of keeping expatriate staff also explain the growth of international consultancy firms based in developing states. Since their manpower costs are modest, these firms are able to compete effectively with those from industrialized states, especially when the technologies involved are not very sophisticated. Thus, consultancy services offered by Indian firms in Middle East states have grown impressively.[29] Many firms from the United States, Europe and Japan have also been subcontacting to Indian, South Korean, and Filipino firms to take advantage of the Latter's lower staffing costs.

Besides the above two assets, Third World multinationals also have an advantage in their familiarity with developing states. Most Third World states share a similar work orientation and ethic, bureaucratic inefficiency at government levels, interpersonal business networks, inadequate economic infrastructures, and a cultural environment that is not always conducive to development. That these firms can operate within such an environment is often an important asset in a host country. They can easily establish rapport with their employees, local businessmen, and government authorities.[30] They are also well prepared to deal with the system of patronage and gifts that American multinationals now find exasperating.[30a]

Third World firms are perceived as less threatening, politically and economically, by many host countries.[31] Politically, their home countries are not as powerful as the industrialized states and are not in a position to intervene effectively on their behalf. Economically, Third World firms posses neither the capital nor the managerial and technological resources of their counterparts from the developed world. Nevertheless, this widely recognized "handicap" of Third World multinationals is perhaps their strength at a time when there is widespread concern about world domination by powerful multinationals based in a few industrialized nations. Studies of South Korean and Taiwanesa firms have understood this point. In several cases, their executives stressed that the modest international role of their countries often helped, rather than hindered, their entry into many Asian and African countries.[32]

The above ownership-specific variables explain the assets and capabilities of Third World firms that enable them to enter and then survive in host countries. But they only tell part of the story and do not explain the preference of Third World firms for direct investment over export, or their decisions about the location of their overseas plants. These can be better explained by location specific factors that motivate a firm to invest in a particular set of countries.

III.2. Location-Specific Variables

The barriers placed on imports to industrialized countries are undoubtedly the most important reasons for foreign direct investment by Third World firms. There is widespread concern about protectionism, both in developing and industrialized states. As their entrepreneurial and technological capabilities grow, developing states typically introduce policies that favour import sustitution as a means of encouraging domestic economic activity and improving their balance of payment situation. Industrialized states have started to curb the import of certain types of manufactured goods from developing states that threaten their indegenous production. Third world firms have often responded by establishing subsidiaries and joint ventures in the countries to which they previously exported, thus protecting their markets. In many cases they avail themselves of various investments incentives provided by the host government. For example, when textile exports were threatened, because of tariff and quota restrictions of markets in EEC Hong Kong firms reacted by establishing their manufacturing operations in Indonesia.[33] Similarly, Taiwanese firms started establishing their subsidiaries in the United States when they noticed growing concern about the import of electrical and electronic products from Asia.[34] Hence, a part of the recent overseas manufacturing investment by Korean firms has been defensive in nature.[35]

Firms from Hong Kong that were exporting garments to industrialized states have followed an altogether different strategy. As quotas were introduced by developed countries on the import of textile products from Hong Kong, these firms established their subsidiaries and joint ventures in developing states whose quotas had not been fully subscribed. Thus they invested in countries like Thailand, Manritius and Sri

Lanka.[36] In such cases, textiles or semifinished garments are supplied by the firms to their subsidiaries or joint ventures, which do the final processing. The products are then labeled as manufactured in the host country and exported to industrialized states, while only a very limited portion of the output is allowed to be sold in the domestic markets of the host states. Several Korean firms have also formed overseas ventures to bypass quota restrictions.[37]

Some firms, especially those whose home countries are involved in export-oriented industrialization, initiated their overseas investments for promotional reasons. In such cases, the main objective was not to manufacture abroad but to support the export efforts of home countries. Most of the South Korean direct investment in the United States, for example, has been designed to encourage South Korea's exports by providing necessary support facilities.[38] Several third World firms have also established subsidiaries and joint ventures in a member state of one of the regional groupings (Sela, Lafta, the Andean Group Caricom, Ceao, Asean and others) so that they can have easy access to the markets of other countries in the group.[39] For example, Hong Kong and Taiwanese firms have been setting up their joint ventures in member-states of Asean thus gaining a foothold in the growing Asean market.[40]

The prospects for the sale of manufacturing technologies also attract Third World firms. As mentioned earlier, firms in developing countries are fast accumulating production technologies in a wide range of industries. The firms naturally like to profit from them in the international markets. Wherever possible, they sell or lease them through licenses, technical collaborative arrangements or supply of turnkey projects. However, it is not always possible for these firms to market these technologies. Firms often lack exclusivity of patents and often do not have the advantages of familiar brand names. Moreover, an international market has not developed for these technologies since little information about the potential buyers and sellers is available.[41] Under these circumstances, it makes sense for these firms to establish joint ventures or subsidiaries for selling/leasing their operating technologies. Usually they partly subscribe their equity shares in the foreign subsidiaries or joint ventures in the form of machines and equipment. Thus, a firm can sell its operating technologies, for which there is a limited international market, and it also gains equity shares in foreign ventures that should turn over a continuous profit.[42]

In India's case, the export of machinery and equipment is one of the principal reasons for overseas expansion.[43] Indian enterpreneurs started tapping foreign markets for their joint venture projects when the country's capital goods industry was facing a recession. The majority of Indian firms have subscribed their equity shares in joint ventures in the form of machines and equipment.[44] In Hong Kong, South Korea, and Taiwan a substantial number of firms have sold their operating technologies to their joint ventures.[45] The situation is similar for many Latin American firms.[46]

Third World firms even sell their old machinery and equipment to other countries in the above fashion. In such cases, firms go to a country where the old operating technologies are still economically viable and politically acceptable. Hong Kong firms have been know to repaint their old machines and sell them at profit to their overseas partners.[47] There have been similar complaints about two Indian firms, although the country's regulations prohibit the use of old machinary in foreign joint ventures. In Taiwan, a firm sold its own manufacturing plant to its subsidiary in a South American country.[48]

Some Third World firms have tried to take advantage of lower production costs in other developing states. Wages have significantly increased in the more industrialized developing states, such as Hong Kong, South Korea, and Singapore.[49] Therefore, their labor-intensive products are not always competitive in world markets. Increasing labour costs have caused some South Korean garment firms to seek new venues for manufacturing, and they have already established subsidiaries in many Asian States. Medium-sized firms from Singapore that have been involved in labour-intensive operations have also been exploring new sites in Bangladesh, Indonesia, Malaysia, Sri Lanka, and Thailand. A recent study reported that increasing rents and wages led a number of Hong Kong firms to search for overseas manufacturing bases,[51] and a similar situation exists in Singapore.

Third World firms have also been attracted by the lure of raw materials. The rising prices of petroleum and the perceived scarcity of raw materials have made many firms actutely conscious of their vulnerability to supply fluctuations; their concern is not only for the price of raw materials and the cost of importing them, but also their continued availablity. The present situation has especially affected the firms from those developing states that have made significant strides toward industrialization, but are not rich in vital natural resources. Thus, Brazilian Petrolbras and its subsidiaries have set up several ventures for oil exploration,[52] while several Hong Kong firms are increasingly investing in Indonesia, Malaysia and Thailand in the wood and wood products industry,[53] South Korean and Taiwanese firms have recently entered into collaborative arrangements with several OPEC countries for oil exploration and refining.[54] Several states have been actively encouraging their firms to make overseas investments in resource development projects. For example South Korea and Taiwan give priority to those projects that invest in vital sources of raw materials, even providing incentives for such investments.[55] Some countries are also using their state controlled enterprises for this purpose. Taiwan Fertilizer Co., a state controlled firm, has established a joint venture in Saudi Arabia for manufacturing chemical fertilizers. Under the terms of this agreement, part of the output will be exported to Taiwan. And, as mentioned, state-controlled enterprises in Brazil have taken a lead in foreign oil exploration. As the general demand for raw materials grows, more and more Third World firms will come under pressure form their governments to establish overseas subsidiaries and joint ventures for gaining access to them.[56]

Two other location-specific variables can be mentioned here. The first is the similarity between the cultural and economic systems of home and host countries.[57] Firms have usually expanded to neighbouring countries whose social and cultural systems are familiar. While there is nothing new in this pattern, the Asian Third World firms are distinguished by their widespread use of ethnic and kinship networks. Firms from Hong Kong, Singapore and Taiwan have successfully used the Chinese communities in neighboring states for establishing their joint ventures and subsidiaries, although Indian entreprenuers have been relatively less successful in making use of overseas Indian communities.[58]

Developing states often have a high degree of political upheaval and economic uncertainty. Thus, a second attracting factor can be the political and economic stability of the host countries as compared to the home environment. Consequently, and understandably, when a state faces economic or political problems, its firms seek investments in countries that are perceived to be more stable therefore and safer. Argentine firms were reported to have increased their overseas investments during the last years of the Peron regime.[59] Hong Kong firms have sought security in foreign countries as the present lease draws close to its expiration date of 1997;[60] although the situation has drastically improved with recent political changes in China, which have given Hong Kong entrepreneurs a new confidence about their future. Uncertainty persists in Taiwan, however, and its firms have been known to expand their overseas investments through both formal and nonformal channels.[61]

To sum up, in this chapter, a discussion has been made about the ownership-specific variables and location specific variables that explain the internationalization of a firm. The available date suggest that the ownership-specific advantages of Third World firms are usually quite different from those associated with the multinationals from North America and Western Europe. However, there is marked similarity between the two types of multinationals with regard to location - specific factors. For example, the reasons, like lower labor and overhead costs that account for the emergence of giant firms and oligopolistic market structures within the advanced industrial countries, also seem to account for the internationalization of TW firms; specifically, giving them advantages that can allow them to operate profitably abroad.

FOOTNOTES - CHAPTER III

1. See D.J. Lecraw, "Internationalization of firms from LDCs: Evidence from the ASEAN Region" in K. Kumar et al. Multinationals from Developing Countries (Lexington, D.C. Health, 1981) at 37-47.

2. See J.H. Dunning 'Explaining the International Direct Countries: Towards a Dynamic or Development Approach", in J. Black et al. International Captial Movements (London, MacMillan, 1982) at 76-100.

3. See L.T. Wells, Jr., "Motivations for Foreign Investment", in Third World Multinationals (MIT Press, 1983) at 73-74.

4. See C.P. Kindleberger , "The International Corporation", (Cambridge, M.A. MIT Press, 1970) at 57.

5. See N. Hood and S. Young, "The Economics of Multinational Enterprise", London, Longman (1979) at 48.

6. See J.E.S. Parker, "The Economics of Innovation: The National and International Enterprise in Technological Change. (London Longman 1974) at 45.

7. See R.E. Caves, "International Corporations: The Industrial Economics of Foreign Investment Economics" (Cambridge University Press 1971) at 1-27.

8. Ibid. at 30.

9. See R.E. Caves, "Causes of Direct Investment: Foreign Firms' Shares in Canadian and United Kingdom Manufacturing Industries"; (1974) Review of Economics and Statistics, at 279-93.

10. Ibid.

11. Supra, note 4.

12. See S. Lall and Siddharthan, "The Monopolistic Advantages of Multinationals: Lessons from Foreign Investment in the U.S.", in (1982) Economic Journal, at 668-83.

13. Ibid. at 82.

14. Ibid. at 81.

15. See L.T. Wells, Jr., "Foreign investors from the Third World", in K. Kumar et al Multinationals from Developing Countries (Lexington, D.C. Heath, 1981) at 23-36, also see, C.N.S. Namburdiri, O. IYANDA and D.M. Akinnssi, in K. Kumar et al., Multinationals from Latin American and Asian Developing Countries" (Lexington, D.C. Heath) at 145-154.

See L.T. Wells, Jr., Multinationals from Latin American and Asian Developed Countries: How they differ, (1980) Harvard Business School, Mimco, at 42. Also see, L.T. Wells, Jr., "Foreign Investment from the Third World: The experience of Chinese firms from Hong Kong" (1978) Columbia Journal of World Business (spring) at 39-49. Also L.T. Wells, Jr., "The Internationalization of Firms from the Developing Countries", in T. Agmon et al. Multinationals from Small Countries (Cambridge, M.A. MIT Press, 1977) at 55.

16. See K. Kumar, The Korean Manufacturing Multinationals (Honululu East West Center, mimed 1981); also see, E.K.Y., Chen, "Hong Kong Multinationals in Asia: Characteristics and Objectives" in K. Kumar et al. Multinationals from Developing Countries, (Lexington D.C. Heath, 1981) at 79-100; also see. E. White, "The International Projection of Latin American Firms" in K. Kumar et al. Multinationals from Developing Countries, (Lexington D.C. Heath, 1981) at 155-160.

17. See M.K. Rajoo, Internationalization of Indian Business, Bombay: Forum of Free Enterprise, 1980) at 40-45, also see M.K. Rajoo & C.K. Prahalad The Emeriging Multinationals: Indian Enterprises in the Asean Region, (Madras, India, M.K. Raju Consultants Ltd.) at 20-45.

18. See K. Kumar & K.Y. Kim, "Multinational firms from the republic of Korea: A Study of Overseas Investments in Manufacturing Sector", (Honululu East-West Center 1981) at 27-50.

19. Supra, note 17. See M.K. Rajoo at 48.

20. Supra, note 18.

21. See C. Diaz-Alejandro, "Foreign investment by Latin Americans", in J. Agmon et al. Multinationals from Small Countries, (Cambridge M.A. MIT Press 1977) at 90-98; also see K. Kumar et al. The Chinese Multinationals, (Honululu East West Center, 1981).

22. See R.G. Agarwal, "Third World Multinationals Corporations: Indian Experience" in K. Kumar et al. Multinationals from Developing Countries, (Lexington D.C. Heath) at 117-129; also see D.J. Lecraw "Direct Investment by Firms from Less Developed Countries" (1977) 29(3), Oxford Economic Papers at 442-457.

23. See L.T. Wells and V'E Warren, "Developing Country Investors in Indonesia", (1979) Bulletin of Indonesian Economic Studies (March) at 70-84.

24. See S. Lall, "Developing Countires as exporters of Technology: A Preliminary Analysis" (Oxford Institute of Economics of Statistics, 1978) at 44.

25. See World Bank, "Exports of Technology by newly Industrialized Countries: Research Proposal" (Washington, World Bank Report 1979) at 618.

26. See K. Kumar & K.Y. Kim, "Multinationals form Korea: a study of overseas investment in manufacturing sector" (Honululu, East West Center, 1981) at 54.

27. See K. Kumar, "The Social and Cultural Impacts of Transnational Enterprises", (Sydney, Research Project on Transnational Corporations, University of Sydney 1979) at 90.

28. See L.T. Wells, Foreign Investment from the Third World: The Experience of Chinese firms from Hong Kong" in (1978) Columbia Journal of World Business, (spring) at 39-49.

29. See Federation of Indian Chambers of Commerce and Industry (FICCI) Report on Workshop on Indian Joint Ventures and Project Exports, (New Delhi, FICCI, 1980) at 69-84.

30. See K. Kumar, "Multinationals of Third World Public Sector Enterprise" in K. Kumar et al. Multinationals from Developing Countries (Lexington D.C. Heath, 1981) at 187-197.

30a. The Code on Corrupt Practices (issued by UN-ECOSOC) appears to have been abandoned due to lack of interest outside U.S. During 1970s, the U.S. had implemented national legislation restricting the use of illicit payments, abroad, and was eager to have MNCs from other

under the same set of constraints.
countries operate with U.S. MNCs operating under the U.S. national legislation on illicit payments, other developed home countries to MNCs had little incentive to remove the advantage this provided their own firms. Many developing countries have also been reluctant to pursue a binding code on illicit payments. For all these reasons, vigorous U.S. efforts to have the code implemented have failed (UN-ECOSC Code on Corrupt practice) also see (1985) International Perspective, Nov-Dec. at 22-26.

31. See J. Panglaykim, Multinationals Corporation in ASEAN/SOUTH KOREA/HONG KONG: A descritive picture, (1979) (paper presented at the East West Centre Institutes Seminar on Third World Multinational Corporation. Honululu East West Centre), at 17-18.

32. Supra, note 30.

33. See E.K.Y. Chen, Multinational Corporations, Technology and Employment, (London McMillan 1982) at 36-46; also see E.K.Y. Chen, "Hong Kong Multinationals in Asia: Characteristis and Objectives" in K. Kumar et al. (Lexington D.C. Heath, 1981) at 79-100.

34. See K. Kumar and C. Shive, The Chinese Multinationals, (Honululu East West Center 1981) at 35-40.

35. See, Supra, note 26.

36. See, supra, note 33.

37. See, supra, note 26.

38. S.H. So., "Overseas Direct Investment by South Korean Firms: Direction and Patterns". in K. Kumar et al. Multinationals from Developing Countries, (Lextington D.C. Heath, 1981) at 53-78.

39. E. White, "The Multinationals Projection of Latin American Firms" in K. Kumar et al. Multinationals form Developing Countries, (Lexington, D.C. Heath) at 155-186, and also E.K.Y. Chen, supra note 33 Hong Kong Multinationals in Asia at p. 90-99.

40. See W.L. Ting and Chi Schive, "Direct Investment and Technology Transfer from Taiwan" in K. Kumar *et al.* *Multinationals from developing Country* (Lexington, D.C. Heath 1981) at 101-114.

41. *Supra*, note 28.

42. *Ibid.*

43. Indian Investment Centre (IIC) *Joint Ventures Abroad: Status and Guidelines* (Ministry of Commerce and Industry, New Delhi 1979) at 69-84.

44. Indian Institute of Foreign Trade (IIFT), "India's Joint Ventures Abroad" (Report on Workshop). (New Delhi - IIFT 1977) at 69-84.

45. See *Supra*, note 40, also see, K. Kumar and K.Y. Kim, "Multinationals firms from the Republic of Korea: a Study of Overseas Investment in Manufacturing Sector", (Honululu East West Centre, 1981) at 45.

46. See E. White, "The international projection of Latin American Firms" in K. Kumar *et al.* *Multinationals from Developing Countries* (1981) (Lexington, M.A. D.C. Heath) at 155-186.

47. See L.T. Wells, "Foreign Investment from the Third World:- The experience of Chinese firms from Hong Kong" (1978), *Columbia Journal of World Business*. (Spring) at 39-49.

48. *Supra*, note 40.

49. Asian Finance: (1979) *Economic Survey*. Hong Kong.

50. *Supra*, note 26.

51. *Supra*, note 16.

52. *Supra*, note 46.

53. E.K.Y. Chen, "Hong Kong Multinationals in Asia: Characteristics and Objectives" in K. Kumar *et al.* *Multinationals from Developing Countries* (1981) (Lexington D.C. Heath 1981) at 79-100.

54. K. Kumar and C. Schive, "The Chinese Multinationals", (Honululu East West Center, 1981).

55. K.Y. Kim, "Multinationals firms from the republic of Korea: A study of overseas investments in manufacturing Sector". (Honululu East West Center, 1981).

56. Annibal V. Villela, "Multinationals form Brazil in S. Lall et al. The New Multinationals John Wiley and Sons, 1983 at 220-243.

57. D. Singh, Capital Budgeting and Indian Investments in Foreign Countries, (1977) Management International Review at 102, also see Mohan Ram "The Heritage of the Raj" Far Eastern Economic Review, Nov. 23 at 35-42; and Hugh Tinker, "The Banyon Tree" (Oxford: Oxford University Press 1977).

58. Indian Institute of Foreign Trade (IIFT) (1977) India's Joint Ventures Abroad (New Delhi IIFT) at 74-75.

59. Peter O'Brien, "Technology exports from developing countries", the case of Argentina, UNIDO (1981) (Vienna) UNDOC NO: IS/218 (March).

60. Supra, note 26.

61. Supra, note 16.

CHAPTER IV

'PATTERNS OF INVESTMENT OF THIRD WORLD MNCs'

Considerable attention in the literature on FDI has been drawn to FDI activities by such Third World countries as Argentina, Brazil, Hong Kong, India, Singapore, the Republic of Korea and Taiwan. In this chapter, an attempt will be made to show that the FDI originating in these countries has made an exemplary contribution to the economic development efforts of Third World countries, and thus supporting the argument that there is considerable potential for investment and co-operation among these nations.[1] These efforts have been welcomed as agents in the development of suitable technology for host countries, and others for the development of investment climates for developed countries. The Intra TW FDI and joint ventures between TW countries shows how Third World countries are taking an increased share in the management of TW development and maintaining control over their economies by seeking the supply of risk capital, goodwill, know how and management within their own spheres of economic activity. It also enhances TW control of natural resources and access to national markets in an "acceptable" manner. Indian corporations have set up joint ventures in Malaysia, Thailand, Kenya, Indonesia and even in the U.K. Likewise, Argentinian firms have established production facilities in Brazil, Chile, and Uruguay.

These activities have established certain patterns which will be described in the following sections of this chapter. They will demonstrate how these intra T.W. and joint ventures play a catalytic role in promoting trade expansion among TW nations, both quantitatively and qualitatively. This Chapter will attempt to demonstrate how these activities can be a complementary factor to the overall co-operation among TW countries and also demonstrate the role of international organizations and institutions in promoting South-South trade in the best interests of all Third World nations.

IV.1. Patterns of Intra-TW MNC Foreign Direct Investment (FDI)

(a) Regional and Cultural Patterns

Data on FDI from TWCs are scarce. Only a few of them (e.g. India) publish figures on outflows of FDI and a few others (e.g. Indonesia) on inflows of FDI. Recently, the U.N. centre on Transnational Corporations has published some overall figures on the basis of balance of payment data. These figures indicate that FDI of developing countries amounts to only a fraction of that from developed countries, but that they have been growing faster. During the period 1970-72 the total outflow of FDI from TWCs amounted to U.S. $43 million, or, 0.33 percent of the outflow from DCs. In 1978-80 this ratio has risen to 1.64 percent. For the ten-year period from 1970 to 1980 the growth rate of FDI from TW MNCs was more than two and half times that of FDI from DCs.[2] In some host countries (eg. Indonesia and Thailand)

FDI by TW MNCs already constitutes as much as 14 to 16 percent of total FDI (Table I). In terms of the number of projects, their importance is even greater.[2] In some countries (eg. Nigeria and Ghana) selected industries (e.g. textiles) are already dominated by LDC investors.[3]

TABLE I

Share of Intra TWCs FDI in Total FDI in selected Host Countries

		%			%
Argentina	(1976)	1.73	Indonesia(a)	(1982)	15.90
Brazil	(1979)	0.60	Mexico	(1978)	0.22
Chile	(1974-78)	0.95	Peru	(1978)	2.00
Colombia	(1978)	6.48	Philippines(a)	(1982)	6.80
Ecuador	(1977)	6.40	Thailand(a)	(1982)	13.70
Guatamala	(1976)	6.80	Venezuela	(1979)	0.78
Hong Kong(*)	(1982)	4.10			

Sources: (1) United Nations Commission on Transnational Corporation Transnational Corporation in World Development: A Re-examination. E/C/10/38. N.Y. 1978

(2) "Survey of Activities of Transnational Corporations from Asian Developing Countries" Report submitted to ESCAP/UNCTC (Bangkok, 1984).

(*) Share of Asian Developing Countries only.

The largest investors in Asia are Hong Kong, Korea, the Philippines, and Singapore; and in Latin American, Argentina, Brazil, Mexico, and Venezuela. The largest host countries are Indonesia, Hong Kong and Thailand in Asia; Brazil, Colombia and Ecuador in Latin American. Many of these countries are both home and host countries of Third World Multinationals. (Table II)

TABLE II

Selected Important Home and Host Countries of FDI

in The Third World

(U.S. $ million)

Largest Home Countries		Largest Host Countries	
Figures refer to total FDI in 1976 or one or two years earlier in or from neighbouring important developing countries.			
Argentina	35	Brazil	42
Brazil	30	Colombia	36
Hong Kong	753	Ecuador	33
India	22	Hong Kong	54
Korea	107	Indonesia	1,388
Malaysia	48	Mexico	21
Mexico	30	Thailand	44
Philippines	276	Venezuela	22
Singapore	131		
Thailand	30		
Uruguay	21		
Venezuela	42		

Sources - UNCTC. Transnational Corporations in World Development. E/C.10/38/N.Y. 1978

One of the important characteristics of these multinationals is that they generally invest in neighbouring countries with sizable populations of similar ethnic and cultural background. For example, nine-tenths of Argentinian FDI in 1980 was concentrated in Latin American, mainly in Brazil, Peru and Uruguay.[4] More than four-fifths of the affiliates of companies from Singapore and more than half of those of Malaysian firms are in South and East Asia.[5] Ethnic and cultural similarity is very often correlated with similarity of demand structures of home and host countries. Moreover, ethnic and cultural similarity tends to assure the investors of an elastic local supply of personnel which suits their tastes in terms of trainability for managerial and technical jobs. This is a critical factor for long range planning. In the short run TWMNCs tend to employ a relatively higher proportion of expatriates from their home countries, but in the long run they tend to employ a greater proportion of local managerial and technical staff. Early expansion of DC multinatinal was characterized by a similar pattern.[6]

The importance of regional and cultural considerations, however, should not be overemphasized. A small minority population of Indians could, for example, attract Indian FDI as far from India as Nigeria, but not further to Guyana where the Indian population is in majority. Investing in countries at very great distances and with quite differenat cultural economic and political conditions involves higher information and management costs, which are, as a rule, avoided by TW MNCs. Thus their investments are, on the whole, confined to nearby regions, although there are notable exceptions to this pattern. Hong Kong FDI in textiles, for example, has a wider geographical spread TWMNC FDI in the services sector is also widely distributed: a few Indian firms have opened hotels and restaurants in Australia, France, United Kingdom, and the United States; banks from Korea, India, and several other other developing countries are - like those from the developed countries - following their export trade by opening branches in countires with whom they deal; and, a large part of Korean FDI in the trading sector is spread over North America, Europe and Africa. These distances are the exceptions and regional concentration of affiliates of TW MNCs is very high and in any case higher than that of affiliates of DC multinationals.[7]

IV.1.(b) Sectoral Structure

A great part of FDI from developing countries is concentrated in the manufacturing sector. Two thirds of Indian joint ventures are engaged in manufacturing activities. About 80 percent of outward Taiwanese and inward Colombian FDI, are in the manufacturing sector (Table III). Within this sector, the investments are spread over a number of industries producing mostly - unlike the DC firms - products which are characterized by mature (older) technologies, low price competition, and absence of product differentiation.[8] More than half of the Hong Kong FDI seems to be concentrated in textiles,[9] while in the case of India, textile investment occupies second place, and the biggest share of India's FDI is in food industry.[10] Thus TW MNCs investments take place mostly in those industries which dominate the manufactured exports of investing countries, supporting the hypothesis that trade is followed by FDI.[11]

FDI of developing countries in the raw materials-extraction industries of host countries is relatively less important, though the situation differs from country to country. India has recently set up a joint venture with Senegal which will enable India to import phosphoric acid from that country from 1984-85 onward.[12] Some Hong Kong and Filipino firms have invested in Borneo to exploit the local supply of timber. The Hong Kong firms supply timber mainly to their home based furniture industry, whereas the Filipino timber investments in Borneo are world market oriented. The share of outward FDI in raw materials extraction industries of overall Argentine and Korean MNC's is probably the highest among all the investing countries of the Third World (Table III).[13] In the case of Argentina it is mainly in petroleum, while most Korean investments are in timbering in Southeast Asia. The Peruvian Cia Minera Buenaventura has made a capital investment in some mining companies of other Latin American countries such as Venezuela and Ecuador.[13a] Brazil has a joint venture in Columbia to ensure coal supply to her public sector steel factory. As host countries, Indonesia (in Asia) and Ecuador and Venezuela (in Latin America) appear to have attracted relatively more FDI from TWCMNCs in their raw material sectors than have other developing countries.[14]

TABLE III

"Sectorial Distribution of FDI From or in Selected Developing Countries"

	outward				inward		%
	India 1982	Korea 1983	Taiwan 1979	Argentina 1974	Ecuador 1974	Colombia 1974	Venezuela 1974
Manufacturing Sector	65	13	78	49	33	81	46
Construction	5	12	--	8	17	6	10
Mining, agriculture and Forestry	--	48	8	38	12	--	--
Trading activities	13	12	11	4	9	--	40
Others	17	15	1	2	29	13	4

Source: (1) Federation of Indian Chambers of Commerce and Industry.
(2) Jo. S.H. "Overseas Direct Investment by South Korean firms in Multinationals from Developing Countries
(3) ESCAP/UNCTC (Bangok, 1984)
(4) Unido(IS, 218 Vienna 1981)
(5) E. White "The Latin Americans Firms" in "Multinationals from Developing Countries" by K. Kumar et al.

IV.2. Host Country Benefits

IV.2.(i) Appropriate Technology

One of the commonly accepted characteristics of developed countries' FDI is that the technologies associated with these investments are capital intensive, whereas the host developing countries, because of their factor endownments, need labour intensive technologies. As a result, production costs of the goods produced by these imported technologies are higher than those if they were produced with labour intensive technologies. These costs are sometimes even higher, than production costs in the home countries of the foreign investors. This is primarily because the domestic markets of the host developing countries are generally smaller than optimal for the imported technologies. Therefore, such goods are not competitive domestically or on international markets. In the domestic markets of the host countries, these goods can be sold only with the support of local import protection. Such protection leads, however, to inefficient use of domestic resources, especially capital, which is scarce in developing countries.[15] The technologies associated with the FDI of investing TWs, by contrast are more labour intensive and therefore more appropriate for the host developing countries.[16] Another important reason for their appropriateness is that the optimum production levels of such technologies are generally lower than those for technologies imported from highly industrialized countries.[17] The main elements of these advantages are the following:

(1) Even if investing developing countries are unable to devote sizable funds to R & D activities, they have succeeded in developing some production techniques and processes corresponding to their own factor proportions.[18] These methods of production are very likely to suit other developing countries endowed with similar factors of production.

(2) Though most of the FDI from developing countries is in mature products incorporating mature technologies previously imported from the developed countries, these technologies have undergone adjustments and adaptation to local conditions in the original importing countries.[19] This is more common in auxillary operations than in the main production process. In many cases, developing countries have succeeded in scaling down the main production process to suit their market sizes. Such adapted technologies are naturally more appropriate for other host developing countries than the unadjusted original forms. This is considered, for example, to be one of the important reasons for the profitability of TW firms in the Philippines[20] where such firms are able to avoid idle capacity by adjusting to the available demand.

(3) Sometimes the investing TWCMNC's have not adjusted or changed an imported technology at all, but the particular technology is no longer available from the original exporting developed country, which has converted to more labour saving production processes in order to reduce the costs of production. When the older technology is imported from one into another developing country, it may be more appropriate in comparison to successor technologies that are available from a highly industrialized country.[21]

A comparison of firms from developing and developed countries in Indonesia showed that, on average, the former needed only about half of the capital per worker common among the latter during the period 1967-76.[22] Lacrew's[23] comparison of Thai firms with different origins showed that in each industry, firms with partners from developing countries (India, Taiwan, Singapore, and Malaysia) used considerable less capital per unit of output than those with parents in highly industrialized countries or those which were purely locally owned.

IV.2.(ii) Absorption of Local Resources

Subsidiary firms with parents in the developed countries are generally parts of integrated and globally-oriented large enterprises with centralized sourcing and selling strategies.[25] Therefore, the absorption of local resources in developing countries by these firms is likely to depend less on domestic resource availability than on the strategy considerations of the parent firms and on local prices in relation to those of other sources accessible to parent firms.[26] TW firms in other TW host countries are generally not quite so integrated into the sourcing and marketing strategies of their parent companies, and are thus likely to absorb a relatively greater proportion of domestically available raw material and capital goods. This is often reinforced by the fact that domestic majority whose ownership consists of local partners in these ventures. Nearly all the foreign involvement of Indian firms is in accordance with the declared policy of the Indian Government.[27] About two thirds of Latin American firms having foreign equity participation from developing countries of the same region are joint ventures.[27a] Similar findings were yielded by a survey in Thailand. Whereas only about one-fourth of the multinationals from developed countries held minority equity participation in Thailand, this indicator was as high as 86 percent for developing countries.[28] TW firms in Thailand import only two fifths of their raw material as compared to three-fourths share of imports in the case of DC firms.[29] An Indian firm adapted its techonlogy to suit the quality of locally available raw materials in Mauritius.[30]

Local financing plays a bigger role in the case of FDI of developing countries than it does for those of developed countries. TWCs facing foreign exchange shortages generally do not allow export of financial capital for FDI. In India, for example, cash transfers for this purpose were not permitted at all until 1978 and FDI took place by capitalizing the value of exported capital goods and services such as managerial and licensing fees. Since then, however, cash investments have been permitted for those projects likely to stimulate exports of Indian machinery equipment. However, the share of such cash remittances in India's FDI remains very low at about 10 percent.[31] Although statistical evidence for other countries is wanting, information available indicates that most of the FDI of other developing countries also consists of the capitalized value of exported capital equipment and services.

Local majority capital share should normally lead to indigenous control management, but LDC joint ventures tend to have a very high share of expatriate managerial and supervisory staff from the countries fo the foreign ivnestors. Unlike MNCs from developed countries, firms in home LDCs are generally controlled and managed by individuals or individual families.[32] They tend to employ in their foreign firms relatives or non-related managers who have served them for a long time - in order to secure continuity of their managerial system and effective control.

IV.3. Home Country Benefits

It is assumed that if governments act in the interests of their people they should expect to receive in the long run, net transfer of foreign exchange earnings from their investors abroad. Such earnings may come directly from the export of goods and services generated by FDI as well as from remittances of dividends. Second, FDI might be expected to project a positive image of a host country's technological and economic capabilities and thus improve the export chances in general. Third, transport and marketing networks created by the FDI in the host market may be used to promote other exports of the home country.[33]

These policy objectives are quite obviously pursued in the Indian case, and with some measure of success. Export promotion is a declared aim of government policy with respect to Indian joint ventures abroad, which are promoted by a number of instruments such as tax incentives and an import replenishment scheme.[34] As is evident from Table IV, this policy of the Indian government has been successful. Up to 1980, Indian joint ventures spurred an initial export of capital equipment worth Rs. 256 million which, because it was capitalized, had no direct impact on balance of payments. The growth of additional exports of raw materials, intermediate goods and components generated by such ventures up to 1972 was slow, but since then the ratio of such exports to initial exports of capital equipment has been growing. From 1978 to 1980 additional exports amounted on average to ten times the initial export of capital equipment (column 6 of Table IV). During this period, foreign exchange earnings through dividend transfer (column 7, Table IV) and other repatriations (fee for technical know-how, engineering services, management, consultancy, etc. - column 8) have also gone up considerably so that, on a flow basis, joint ventures in the last three years (1978-80) were yielding foreign exchange to India averaging as much as twelve times the initial capitalized value of exported machinery and equipment (Column 9, Table IV). On a cumulative basis, for the period ending in March, 1981, this measure of balance of payments effect of Indian FDI results in a ratio of 1:5 (Table IV). It is somewhat higher in the case of new joint ventures which are still in the implementation stage, indicating that the total foreign exchange earnings per unit of investment are likely to increase when these joint ventures also start remitting dividends. Even joint ventures which have been abandoned by Indian investors performed equally well on average in terms of export earnings, dividends, and other remittances. If the other components of FDI (Viz capitalization of know-how and preliminary expenses, etc., cash investments) are also taken into account, total Indian investment in joint ventures in operation at the end of August 1980 comes to Rs. 357 million.[35] On such a basis, the cummulative foreign exchange earnings of Indian joint ventures amounted in 1980 to more than 300 percent. In view of India's need for foreign exchange, the relatively recent start of her industrialization, and the limited international competitveness of Indian goods; this is undoubtedly a remarkable performance. Moreover, an even higher inward flow of foreign exchange may have been hindered insofar as Indian investors might have built resources in foreign countries in order to secure a greater international mobility of their foreign exchange rules in India.[35a]

Sufficient data are not available to analyze the effects of FDI on the balance of payments of other investing TWCs. Evidence from Thailand's experience as a host country suggests that LDC investors cover a considerable part of their demand for import inputs with supplies from their home markets or other developing countries.[36] Further, FDI from LDCs is mostly aimed at supplying the host markets of third countries (e.g. Hong Kong textile investments in the Philippines to export to the United States or in Mauritius to meet the European demand).[37] As a result, the balance of payments effect of FDI is likely to be positive in investing LDCs in general, unless the exports of capital equipment and associated goods triggered through FDI and the remittances of dividends, etc. are compensated by the displacement of exports made to the host markets prior to investment there. Generalizations on export displacement, in the absence of any conclusive evidence, are very speculative. In the United States (the country with the largest stock of FDI) this issue has proved to be very controversial, especially between the trade unions and the American investor abroad.[38] The former believe that the export displacement effect combined with the effect of imports by American MNCs from their foreign affiliates outweigh additional exports triggered by FDI, whereas the latter argue in the opposite direction.[39]

IV.4. Economic Co-operation among Developing Countries (ECDC) and Third World Joint Venture Enterprises

Over the last two decades, the economic inter relationship among developing states has been growing. Expansive measures have also been made towards increasing trade, monetary and fiscal cooperation, multinational marketing agencies, and schemes for complementary production.

Following the Nairobi Conference in 1976, UNCTAD set up a Committee on Economic Co-operation among Developing Countries (ECDC). Several studies have been undertaken on matters such as evolving a global system of trade preferences among developing countries and cooperation between state-trading organizations and multinational marketing enterprises.[40] As for multinational production enterprises, a number of ideas have been generated for formulating a clear definition of the concept and for promoting projects that have either significant linkages with new or existing facilities in more than one country or projects involving the location of complementary facilities in one or more countries. Recommendations have been made for preparing an indicative list of sectoral investment possibilities in production of social goods based on complementarity, rational development of non-renewable resources, optimal exploitation of natural resources for the efficient development of agro-based projects, and development of basis industries, engineering industry, and so forth. The concept of collective self-reliance implies an active approach toward the creation of additional productive capacity, and the multinational production enterprises of developing countries have an important role to play in this aspect.[41]

The resolution adopted by UNCTAD referred 'inter alia' to the need for intensification of activities by it in collaboration with United Nationals Industrial Development

Organization (UNIDO), leading to action-oriented conclusions in the field of multinational production enterprises among developing countries (Resolution 127(v), adopted on June 3, 1979).

There were suggestions for the setting up of arrangements for joint technological research and development, design and engineering in the areas of common interest, and even establishment and transfer of technology inter se developing countries.[42] These initiatives may be said to reflect, to a degree, a "growing questioning of Western models of industrialization and urbanization, together with a renewed emphasis on rediscovering one's own cultural heritage, as well as the need to have the economic capacity to be able to follow a genuinely independent development path".[43] Along with other measures, joint ventures among developing nations are an essential component and instrument for bringing about structural changes for stimulating the growth process in the Third World.

The initiatives taken at the Asian trade minister's meeting held in New Delhi (August 16-23, 1978) that also emphasized the role of "South-South Trade creating" joint ventures as providing scope for promotion of intraregional trade. At the microlevel, the joint venture enterprises which bring together partners having common objectives and interests, seek to concretize such co-operation for mutual benefit. Because of limited specific objectives, they do not require a higher degree of political commitment and economic adjustment involving a large number of related projects and general industrial policy. They thus become suitable and flexible vehicles for co-operation on a bilateral or trilateral basis within economic regions as well as between countries belonging to different regions.[44]

In terms of promotion and ownership, TW MNCs fall into some general patterns: ventures involving mainly private-equity participation and market development; broader public-sector initiatives on a bilateral or multilateral basis, but outside the framework or regional or subregional groupings; and multinational enterprises utilizing finances from those developing countries with surplus liquidity in a manner likely to yield commercial returns on their investments while strengthening third-world solidarity in production and trade.[45]

In terms of their operational objectives these MNCs fall into three main categories:[46]

1. Regionally-oriented ventures inspired by and contributing to a broader set of co-operation and integration strategies.

2. Sectorally-oriented ventures resulting from and contributing to sector co-ordination among two or more Third World countries located in the same or different regions.

3. Essentially ad hoc enterprises that serve a particular bilateral or multilateral common interest but which do

not form part of a broader framework of collective self reliance.

The overall contribution of the joint venture enterprise to Third World development is likely to be greater in the case of initiatives falling into the first two categories. They provide a framework within which practical issues can sometimes be resolved over a period of time on a case by case basis and which avoids the problems of broad industrial allocation and the forecasting of the distribution of benefits between the participating countries.

Among specific economic objectives that can be achieved through joint venture, the following may be noted:[47]

1. The utilization of resources not likely to be developed on the basis of a single national market.

2. Integration of different production stages through the utilization of regional resources and market complementarities.

3. The organization of production lines so as to achieve economies of scale and specialization within branches of industry while providing a mutually acceptable dispersion of production facilities and pooling of markets.

4. This is most important of all; the enhancement of opportunities for 'South-South Trade' through the creation of transportation and commercial enterprises devoted to that purpose as well as establishment of Third World consultant firms.

5. Strengthening the bargaining power of developing countries in their trade relations with developed countries through the creation of multinational export and import enterprises owned and controlled by developing countries.

It has been found that establishment of joint ventures in the Third World has considerably enhanced Third World's bargaining power in negotiating with multinaitonal enterprises of the developed world in obtaining capital and relevant technology.

It is equally important to form joint-production enterprises, wherever possible, with buy-back arrangements so that the interests of the host country become better protected. The concept of joint-production enterprises also must be enlarged by mutual help in setting up industrial estates and workshops. Other areas where greater awareness must be created are in service sectors, including banking, insurance, shipping, transport, and communications. The financial institutions in the developing countries can be strengthened by exchange of personnel and by creation of suitable training programs. The exchange of expertise by investment promotion agencies in developing countries is also of relevance for promoting joints production enterprises.[48]

In this context reference should be made to the suggestion concerning the creation of a preinvestment fund for the setting up of joint-venture projects of the Third World, which appeared in the paper entitled, "Monetary and

Financial Co-operation to Support the Programme of Trade Preferences among Developing Countries."[49] The nonaligned countries also had been discussing the need for strengthening the technical-cooperation and consultancy services arrangements among them, including the feasibility of setting up a project development facility (PDF).[50] A decision on this was finally taken at the Ministerial Meeting of Co-ordinating Bureau of Nonaligned Countries held in Colombo from June 4 to 9, 1979. This has promoted the use of technical skills and knowhow available among these countries for the preparation of feasibility studies and project reports and encouraged the use of equipment available in executing project and programs.[51]

A cognate idea that was processed separately related to the establishment of an industrial development unit within the Commonwealth Fund for Technical Co-operation. This unit has mobilized capabilities to help solve specific industrial problems and providing continuing assistance to commonwealth developing countries in their industrialization effort. This would include preinvestment services.[52]

Conclusion

After the phenomenal growth of Japanese FDI in seventies the rise of TW-Multinationals is the second most important factor in increasing the options of host TWCs to choose from a larger number of suppliers of investment and technology, especially in those industries which suit their endowments.

This strengthens their bargaining power and enables them to conclude better deals. Some TW governments have shown preference for FDI from other developing countries on political grounds. In Syria, Iraq and Egypt. FDI from other Arab countries are given preferential treatment to promote Islamic unity.[53] Intra-TWCs investments, however, have the disadvantage that TWC-investors prefer local partners of the same ethnic and cultural background and to that extent they may disturb the balance between different racial and religious communities within the host countries. Sometimes rivalry between people of different origins, as in Sri Lanka, is very strong and FDI favoring a particular community may add fuel to the fire. Reliance only on TWC-investors is also inadvisable because they are unable to supply technology for many industries requiring continuous technological development.[54]

In addition to prospective profits, TWC foreign investors are motivated by a number of factors whose relative importance for them varies from project to project. As in the case of DC-investors the most common motive of TWC investors is to maintain existing markets and/or gain new ones. When an export market is threatened by protectionist measures of an importing country, the exporter tries to maintain his sales in that country by launching local production. Import protection in host TWCs, however, often predates the existence of many of the TWC-investments. Therefore what more often has happened is that investors from TW industrializing countries, after having achieved sufficient success in their home markets, have tried to gain ground through FDI in the protected markets of other TW countries.

Sometimes FDI is undertaken in a particular TWC to gain preferential trade arrangement. For example, Hong Kong textile firms have established joint ventures in Mauritius in order to supply the members of the European Economic Community.[55]

The other important motives of intra-TW investments are directly related to the economic and political policies of their home governments. In some cases (e.g. India) FDI is pursued as an alternative to domestic growth which is restricted by laws meant to control monopolistic practices of big industrial companies.

Joint ventures or subsidiaries are also established in foreign countries to seek greater freedom from restrictive foreign exchange regulations in home countries. Geographical distribution of assets through FDI is considered more useful for this purpose than through portfolio investments which are, moreover, not permitted by most TWC governments.[56]

Some joint ventures especially in the public sector, are offspring of bilateral economic negotiations between developing countries. Besides helping the partner countries, the investing governments hope to raise their exports of

TABLE IV

INITIAL AND SUBSEQUENT EFFECTS OF JOINT VENTURES ON INDIAN BALANCE OF PAYMENTS, FY 1970-80

(Rs. million)

	Initial Capitalized Export of Goods to Joint Ventures	Subsequent Export of Goods to Joint Ventures	Inflow of Repatraited Dividends	Inflow of Other Repatriations	Total Foreign Exchange Earnings	Percentages of			
						(2 to 1)	(3 to 1)	(4 to 1)	(5 to 1)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Up to 1971	48.75	53.72	6.00	5.86	65.58	110.2	12.3	12.0	134.5
1972	12.77	13.28	1.84	1.32	16.44	104.0	14.4	10.3	128.7
1973	21.78	42.09	2.56	1.65	46.30	193.3	11.6	7.6	212.6
1974	23.86	73.57	3.25	2.29	79.11	308.3	13.6	9.6	331.6
1975	30.11	97.97	2.59	13.03	113.59	325.4	8.6	43.3	337.3
1976	34.25	104.49	3.92	13.62	122.03	305.1	11.4	39.8	356.3
1977	24.55	133.10	5.75	20.69	159.54	542.2	23.4	84.3	649.9
1978	17.28	144.00	7.43	23.95	175.38	833.3	43.0	138.6	1,014.9
1979	28.77	218.65	18.59	49.26	286.50	760.0	64.6	171.2	995.8
1980	13.74	255.96	6.88	14.55	277.39	1,862.9	50.1	105.9	2,018.9
Total of which	255.86	1,136.83	58.81	146.22	1,341.86	444.8	23.0	57.1	524.5
Joint ventures in operation	209.37	946.57	48.93	102.27	1,097.77	452.1	23.4	48.8	524.3
Joint ventures abandoned	33.85	146.76	9.88	19.85	176.49	433.6	29.2	58.6	521.4
Joint ventures under implementation	12.64	43.50	—	24.10	67.60	344.1	—	190.7	534.8

Source: Indian Investment Centre Indian Joint ventures Abroad An appraisal (New Delhi) (1981 & 1983) goods and services through direct investments. Host governments, on the other hand, expect from these investments appropriate technologies, free from political strings because they have the feeling of negotiating on the basis of equality. In sofar as both sides are able to realize their aims intra-TWCs direct investment are going to increase South-South investment and Trade, which will have the effect of strengthening economic co-operation among the TWCs in other fields as well.

FOOTNOTES -- CHAPTER IV

1. See United Nations Centre on Transnational Corporations Transnational Corporations in World Deveolpment: Third Survey, (New York, U.N. Document No: ST/CTC/46/1983) at 87.

2. See United Nations Commission on Transnational Corporations 'Transnational Corporations in World Development: 'A Reexamination', (New York, U.N. Document no. E/C/10/38 1978) at 181.

3. See S. Lall et al. The New Multinationals: The Spread of Third World Enterprises (Wiley and Sons, 1983) at 21-37.

4. See P. O'Brien and Monekiewicz, "Technology Exports from Developing Countries. The Cases of Argentina and Portugal." UNIDO/IS 218 (Vienna, 1981) p. 46.

5. Supra, note 1 at p. 70.

6. See S. Lall and Siddharthan, "The Monopolistic Advantages of Multinationals: Lessons From Foreign Investment in the U.S." (1982) Economic Journal pp. 668-83.

7. See L.T. Wells "Third World Multinationals: The Rise of Foreign Investment from Developing Countries" (MIT Press, 1983) pp. 67-86.

8. Ibid., at 117-135.

9. See Chen E.K.Y. "Hong Kong Multinationals in Asia: Characteristics and Objectives" in K. Kumar et al. Multinationals form Developing Countries (Lexington, Mass. Heath, 1981) at 79.

10. See S. Chisti and B.R. Chavan "India's Joint Venture abroad Indian Foreign Trade" Indian Institute of Foreign Trade (New Delhi, 1977) at 50-55.

11. Supra, note 7 at pp. 67-86.

12. Economic Times (Bombay), 1984 dated April 22.

13. See Supra, note 9 at p. 80. Also see supra note 7 and supra note 3 at 137-149.

13a. Supra note pp. 137-197.

14. E. White, "The Firms from Latin American Countries" in K. Kumar et al. Multinationals from Developing Countries, (Lexington, Mass. 1981) at 164-165.

15. See J. Riedel, "The Nature and Determinants of Export oriented Direct Foreign Investment in a Developing Country: A Case Study of Taiwan", (1975) Weltwirtschaftliches Archiv, Vol. 111, No. 3.

16. See D. Lecraw, "Direct Investment by firms from Less Developed Countries" (1977) Oxford Economic Papers, vol. 29(3) at 41.

17. See L.T. Wells, Jr., "Foreign Investors from the Third World" in K. Kumar et al. Multinationals from Developing Countries" (Lexington D.C. Heath, 1981) at 25.

18. See J.P. Agarwal, Pros Cons of Third World Multinationals: A Case Study of India (J.C.B. Mohr, Paul Siebeck, Tubingen 1985) at 30-40.

19. See P. O'Brien, et al. "Technology Exports from Developing Countries" in United Nations Industrial Development Organization, Doc. No. UNIDO/IS-218 (Vienna, 1981) at 50.

20. Ibid. at 55.

21. Ibid. at 57.

22. Supra note 16.

23. Ibid.

24. Ibid.

25. Ibid.

26. See P. O'Brien, "The Internationalization of Third World Industrial Firms" (1980) Multinational Business Quarterly Review Vol. 3 at 80-83.

27. Federation of Indian chambers of Commerce and Industry (FICCI) Report on Workship on Indian Joint Venture Abroad and Project Export (New Delhi FICCI 1983) at 20-35.

27a. See <u>supra</u> note 16.

28. <u>Ibid.</u>

29. <u>Ibid.</u>

30. See L.T. Wells, Jr. and V. Warren, "Developing Country Investors in Indonesia" (1979) <u>Bulletin of Indonesian Economic Studies</u>, Vol. 15(1).

31. <u>Ibid.</u>

32. See L.T. Wells, Jr., <u>Third World Multinationals</u> (MIT Press, 1983) at 84-86.

33. W.L. Ting and C. Schive, "Direct Investment an Technology Transfer from Taiwan"' in K. Kumar <u>et al.</u> <u>Multinationals from Developing Countries</u>, Lexington, D.C. Heath, 1981) at 105.

34. <u>Supra</u> note 18 at 16-20.

35. See Indian Investment Centre "Indian Joint Ventures abroad: An appraisal. (New Delhi 1981) at 25.

36. <u>Supra</u> note 16.

37. See G.J.R. Linge, "Developing Multinationals: A Review of the Literature" in (1984) Pacific View, Vol. 25(2) at 187-210.

38. J.E. Roemer, "U.S. Japanese Competition in International Markets: A case study of the Trade-Investment Cycle in Modern Capitalism" University of California, Institute of International Studies. (Research Series 1975 No. 22) at 20-40.

39. See A.E. Scaperlanda and I.J. Mayer, "The Determinants of U.S. Direct Investment in the E.E.C." (1969) <u>American Economic Review</u> Vol. 59(4) part II.

40. These are elaborated in the Arusha Programme for Collective Self-Reliance and Framework for Negotiations, adopted in February 1979; published in UNCYAD <u>Doc No TD/236</u>, May 1979, at 7-24.

41. Paper on Economic Co-operation among Developing Countries: Priority Areas for Co-operation, Issues and Approaches, published in <u>UNCTAD TD/244</u> May 1979.

42. See Report on Third General Conference of UNIDO in New Delhi Jan. 21 to Feb. 8, 1980, in UN Doc No. ID/Conf. 1/13/14.

43. See Development Co-operation - "Efforts and Policies of the Members of the Development Assistance Committee of Organization for Economic Co-operation and Development", (Paris, Nov. 1978), at 36-37.

44. See R.G. Agarwal, "Third World joint Ventures" in K. Kumar et al. Multinationals From Developing Countries (Lexington D.C. Heath, 1981) at 120-126.

45. Ibid.

46. See I.F.I. Shihata "Joint Ventures among Arabe Countries" UNCTAD TD/B/AD19/R.5.1975) at 115.

47. See R. Green, "Deveoloping Countries Multinational Enterprises, Notes Toward an Operation component of Third World Economic Co-operation", in Conference on Economic Co-operation and Trade among Developing Countries (Tunis, April, 1977) at 20.

48. See R.G. Agarwal, "Joint Ventures among Developing Countries" in UNCTAD TD/B/AC19/R7 at 15-21.

49. See UNCTAD, Doc No. TD/B/C7/27 dated Marcy 22, 1979.

50. See UNCTAD, Doc No. EC DC/TA 14 at 28 also see UNCTAD/ST/ECDC/17 page 14.

51. UNCTAD "Co-operative Exchange of Skills among Developing Countries" - Policies for Collective Self-Reliance - in UCTAD Doc No. TD/B/C.6/4/8 Rev.1 (1979).

52. The proposal was originally agreed upon at the Commonwealth Ministrial meeting on Industrial co-operation held at Bangolove (India) on March 5-7, 1979 and was accepted at the meeting of the Commonwealth head of government held in Lusaka, August 1-8, 1979.

53. See supra note 46.

54. See supra note 48.

55. See supra note 37.

56. See supra note 35.

CHAPTER V

CASE STUDIES OF MNCS FROM THIRD WORLD COUNTRIES

The purpose of this chapter is to examine, in light of the descriptions and characteristics of Third World MNC FDI that has been discussed in Chapter IV, the foreign investment policies and specific characteristics of the MNCs based in the following selected countries: India, the Republic of Korea, Hong Kong, Singapore and those in Latin America.

This examination reveals in more detail the extent to which the MNCs of these countries conform to the norms of the TW multinational enterprises. The examination also shows that the motives for foreign direct investment based in these countries has included restricted opportunity for domestic growth because of antitrust and market size reasons, the need to protect markets, and encouragement from the home country government. Further, it will also reveal that, in terms of investment strategy, the MNCs from these countries invest in locations geographically and culturally close to the home country, (as discussed in Chapters III and IV) and frequently, form joint ventures with local investors from the host country and other investors from developing countries. Most foreign operations of the MNCs from these countries emphasize low-cost, labour-intensive smaller-scale operations using mostly intermediate level technology to serve markets that would be considered too small in most cases for developed-country MNCs (as examined in Chapter III).

V.1. Indian Multinationals

V.1.A. Basis for Indian Overseas Investment

Although India is almost universally regarded and categorized as a less-developed or developing country, its economy actually is quite large (only eight countries have a larger GNP than India) and diversified. About 70 percent of India's people still are engaged in agricultural pursuits, but the country also has a substantial industrial sector that has been growing rapidly since the nation acquired its independence in 1947.[1] This sector possesses some rather sophisticated capabilities, including the capacity for indigenous production of automobiles, jet aircraft, nuclear power plants, steel, telecommunications equipment, and other electronic equipment.

The combination of a vigorous industrial sector and a large pool of technically skilled people has given India considerable potential for generating capital and technology. The development and application of that potential within India has been restrained to some degree, however, by the Monopolies and Restrictive Trade Practices Act (MRTP Act) of 1969, which restricted further domestic expansion by the larger businesses. International direct investment and technology transfers, consequently, emerged in India, as an alternative outlet for the growth capabilities and aspirations of these companies.[2]

Like other Third World countries, India's initial experience with international business operations was as host to a variety of foreign extractive, manufacturing and service enterprises. Subsequent financial and technological collaboration between domestic and foreign capital assisted in the growth of a large industrial base.[3] This base greatly aided Indian investors who, like their counterparts elsewhere in the Third World, began to concentrate their foreign operations in countries less industrialized than their own. The vast majority of these investors from India continue to be privately-owned companies that enter foreign markets by setting up joint ventures with host-country partners. To a lesser extent, a few public sector enterprises from India have also established overseas joint ventures.[4]

V.1.A.(i) <u>Reasons for Direct Investment</u>

The main factor responsible for foreign investment by the Indian MNCs has been the restrictive environment of the home economy. The restrictions derive partly from direct limitations placed on the growth and diversification of large firms, partly from the generally difficult conditions for private enterprises, and partly from the sluggish growth of the internal market.

Most of the large Indian firms, especially from the giant conglomerate groups, went abroad because of the restrictions imposed by the Monopoly and Restrictive Trade Practices Act, 1969 (MARTP Act). The act lays down conditions (based on market share, size of assets, conglomerate connections, etc.) under which a firm is subjected to various limitations on expansion within India, both in existing as well as in new areas of activity.[5] Ostensibly designed to curb the concentration of economic power in private hands, the MRTP Act of 1969 imposed certain constraints on the largest Indian companies and particularly on firms controlled by large business houses; or foreign firms. As a result, large-scale foreign and domestic private capital had to seek special government permission for substantial expansion or the establishment of new undertakings.

Section 20 of the MRTP describes four types of business enterprises which come under the purview of the Act.

1. An undertaking having gross assets of Rs. 20 million or more (section 20(a)(i).[6a]
2. "Inter-connected undertakings"[6b] which together have assets of Rs. 20 million and above.
3. A "dominant undertaking" as defined in section 2(d) of the Act, (one which produces, supplies or controls one-third of any goods in the country), which has assets of Rs. 1 million and above.

4. Inter-connected undertakings constituting a dominant undertaking and having aggregate assets of Rs. 1 million or above (section 20(b)(ii)).

The legislature seems to have acted on the premise that in a country where business till recently was dominated by certain established business houses, and families (with their subsidiaries) and where newer entrepreneurs stood little chance of successful entry, the assumption of a certain size, say of Rs. 20 million ($2.4 million U.S.) in assets, by itself or with inter-connected undertakings was in itself an indicator of a degree of economic power.

Under section 21 of the Act, all such undertakings are required to obtain the central government's approval before they effect any "substantial expansion" as defined in the explanation to sub-section (2) of section 21, i.e. increase in the assets or value of goods by 25 percent or more. for this purpose, they are required to submit applications in prescribed forms to the central government of India.[7]

In sub-section (3) of section 21, there was an indication of the overall considerations which will guide the central government in according approval under section 21 of the Act. According to this, the central government was required to satisfy itself:

(i) that the expansion is not likely to lead to the concentration of economic power to the "common detriment";

(ii) that it is not likely to be prejudicial to the "public interest";

(iii) that it is expedient in the public interest to permit the expansion.[8]

Under section 22 of the MRTP Act, the scheme of finance is of crucial importance in considering an expansion scheme of a business enterprise. Under the MRTP Act (1969), it is the duty of the central government to specially consider the finance scheme in connection with any expansion project, to scrutinize it with reference to the criteria indicated in the Act, and to approve it only when the criteria are fulfilled.[9]

The conclusion to be drawn from the above discussion is that the decision to invest abroad was by the Indian MNCs from the late 1970s the unintended consequence of the Indian government's regulatory policies, and especially legislation concerning monopolies. This Act has not been successful and there were relaxations of these restrictions by the government in April, 1985.[9a]

V.1.A.(ii) Location Specific Factors

Apart from domestic restrictions on growth, it may be noted that two location-specific factors, have, in a few cases, induced Indian MNCs to set up abroad. The first is the difficulty in getting continuous and prompt access to new technologies in India. A few firms which wanted such access to develop their own technologies or capture export markets found it attractive to set up in more liberal environments. TELCO (an Indian MNC) for example, whose precision tool plant in Singapore, while firmly rooted in its Indian technology, certainly benefitted from gaining continuous exposure and access to modern electronic technologies.[10] Indian MNCs like Hindustan Computers Limited (a small independent corporation) and Tungabhadra Industries, (part of the dominant Birla group, an Indian monopoly business house) have also ventured abroad to procure new technologies.[11]

Another factor closely related, is the infrastructural, ~~input and~~ bureaucratic problems that afflict exporters in India.[12] Yet, another factor is, that a number of MNCs have the technology, marketing skills, and finance to set up export-oriented operations, but choose to go abroad because of ease of access to materials at world prices, goods, transportation, and other facilities.[13] Many host countries also offer more generous fiscal concessions and subsidies for export-oriented activity than India does. Thus, Larsen and Toubro's (an Indian MNC) bottle closure plant in Singapore serving export markets formerly served by its Indian plant, and despite higher wages in the host country, is expected to be highly profitable. Another Birla group corporation, in collaboration with another Indian MNC (Corona Sahu) has set up an export-oriented canvas shoe plant in the free trade zone of Sri Lanka.[14] Several other Indian MNCs are also reportedly setting up operations there.

V.1.A.(iii) Host Country Factor

An important factor in the host countries which has induced foreign investment by Indian MNCs has been the draw of an import-substituting market. This has induced both those firms which were previously exporting to that country as well as those who hoped to establish themselves anew, to set up local production facilities. Import substitution regimes have often been supplemented by fiscal incentives for 'pioneer' firms, export-oriented firms, or firms setting up in backward areas.[15] For example:

1. Asian Paints was previously exporting to Fiji and was induced by its local dealer to set up local plants with some tariff protection.[16]
2. Usha Martin Black's Thai Plant was set up in collaboration with local dealers who were previously importing its products from India. Some import protection was granted.[17]
3. Grodrej responded to import substitution pressures in Malaysia and Indonesia.[18]
4. Amar's reactive dye plant in Indonesia was promoted by one of the Birla corporations which chose the location because of the country's import substitution strategy. There was no previous direct contact via exports.[19]

The geographic pattern of overseas invesment (as has also been discussed in Chapter VI) by Indian MNCs resembles that of TW MNCs from other nations. The Indian affiliates are heavily concentrated in India's neighbouring region, that is group of developing countries around the Indian Ocean. Some investments can also be found in West Asia and Africa.[19a]

V.1.B. Indian Foreign Investment Policies

The factors that encourage foreign investment and technology transfers by Indian and other Third World MNCs are many and varied. Of these, various public policies pursued by the home government are important sources of motivation. For example, countries like India that have experienced severe balance of payment crises often require that local corporations earn their own foreign exchange if they desire to import. Investment abroad provides opportunities for these firms to earn scarce foreign exchange, either through increased exports or through repatriated earnings. In these circumstances the corporations' decision to invest abroad is the intended consequence of the home government's trade policies.[20]

V.1.B.(i) Foreign Trade and Foreign Investment Policies

The Indian government has never pursued an altogether open door policy toward the export of capital and technology.[21] Indeed, not until the country's first balance of payments crisis (1957-58) did Indian planners view export promotion as a desirable development strategy. That crisis generated a major shift in trade policy with the introduction of export promotion measures that expanded through the 1960s and 1970s. From the perspective of both the Indian government and the Indian investors, the promotion of exports and of overseas investment including joint ventures, was interrelated.

For both government and investor, the motive underlying foreign direct investment may be defensive, designed to protect an existing market threatened by policies of host governments, such as tariffs, or the actions of local competitors. Faced with the potential loss of foreign exchange earnings, the Indian government wanted to encourage investment abroad both by independent corporations or in the form of joint ventures in the country in order to guarantee that some amount of exchange continue to be repatriated through dividends and fees. Likewise, the Indian investor, faced with the loss of its foreign market share, may expand abroad in order to guarantee a continued stream of earnings.[22]

Foreign direct investment may be not only defensive, designed to protect an existing market, but also aggressive, designed to protect a market perceived as a growing one. For both the Indian government and the prospective Indian investor, aggressive foreign investment may increase export earnings and domestic production.[23] For example, foreign direct investment may spur overseas demand for capital goods and technology that would not otherwise have been exported.

Thus, a net gain in foreign trade can be afforded.[24] And, the increased overseas demand for capital goods and technology, in its turn, spur domestic production and employment.

The formal guidelines on overseas investment promulgated by the Ministry of Foreign Trade in December 1969,[25] indicate that the government sought to maximize foreign trade and net foreign exchange earnings through foreign investment.[26] According to the guidelines, the government of India would not allow equity participation in the form of cash except under extraordinary circumstances, insisted on exporting original Indian-made equipment in lieu of equity;[27] and preferred minority equity participation unless otherwise demanded by the hosts.[28] This promotion of Indian exports through investments or joint ventures abroad consists of therefore, mainly in the expected after-effects on the exports of other capital goods, intermediate items and raw materials. These investment/joint ventures are going to contribute in the long run to Indian foreign exchange income through repatriation of dividends, royalties or capital and through creation of an export marketing network and goodwill for Indian goods in the host countries.[28a]

In addition to these guidelines, the Indian government implemented various policies designed to increase foreign trade through foreign investment. Import entitlement schemes and other export promotion measures were expanded to encourage the Indian equipment manufacturer to export capital goods to Indian investors overseas.[29] The Export Credit and Guarantee Corporation expanded its coverage of the capital goods exporter to include a wide range of commercial and political risks.[30] The government came increasingly to assume the role of principal financier, paralleling domestic trends.[31] The international finance wing of the International Development Bank of India (IDBI), the governments leading finiancial institution, began to provide medium and long-term deferred payment credits, export credit financing, loan guarantees and other support.[32] In 1981, these functions were transferred to a new Export-Import Bank designed expressly to encourage exports of capital goods, project construction and consultant services.[33] In 1977, IDBI also concluded an agreement, the first of its kind for India, with the Kenya Development Bank, to open commercial lines of credit; similar deals have also been made with Nigeria and Ghana.[34] Agreements to avoid double taxation with Kenya, Malaysia and other African and Asian countries have been made. At home, taxation on income from foreign sources were reduced on those dividends and royalties repatriated from the export of technological expertise to foreign investments.[35] As financial incentives were improved, bureaucratic disincentives were reduced. Promotion and approval of foreign investment abroad were elevated to a high level inter-ministerial committee, and bureaucratic procedures were streamlined.[36] The Indian Investment Centre, established originally to promote foreign investments in India, expanded its operations to channel information about foreign markets to prospective Indian investors.[37]

So, it can be concluded that like their counterparts elsewhere in Asia and Latin America, Indian investors moved abroad and the Indian government encouraged this movement with appropriate policies, for a variety of reasons: to protect an export market for manufacturers, to extend a new market for capital goods, and to expand capacity utilization and foreign exchange earnings. Thus, the decision to invest abroad has often been the intended consequence of both defensive and aggressive strategies pursued by business and governments alike.

V.1.B.(ii) <u>India's Share of Foreign Equity</u>

The Indian government prefers to grant permission to Indian investors seeking to invest abroad with minority equity participation in foreign countries, rather than to the establishment of their fully owned subsidiaries. In its own domestic economy, India has encouraged foreign investors to accept domestic partners. Foreign investors are allowed any minority participation and the existing foreign investors have had to dilute their share holdings to 40 percent of the total share capital or below, according to the <u>Foreign Exchange Regulation Act</u> of 1973. Exceptions are majority participation or fully owned subsidiaries of foreign companies in the domestic economy in India are allowed only in those cases in which the particular technology is not available from any source or the company is going to produce goods mainly for export.(38)

V.1.B.(iii) Tax Treatment

The Indian government's support for international ventures by the Indian firms takes a number of other forms. Under sections 80-O and 80-N of the Indian Income Tax Act of 1961,[39] overseas earnings received by Indian MNCs from the export of technology are wholly exempted from taxation, provided prior approval has been obtained from the Central Board of Direct Taxes. The tax laws also allow a deduction of 50 percent (for a maximum of 3 years) of the personal income earned by Indian citizens working in qualified overseas joint ventures. As a means of clarifying and protecting the tax status of Indian MNCs operating abroad, the Indian government negotiated bilateral tax treatments with 25 foreign nations, and more are under negotiation.[40] Unilateral tax relief is provided by India for the portion of tax paid in host countries for those countries where no double tax agreements exist.

The Indian government has followed a policy of encouraging Indian firms to cooperate with one another in seeking overseas businesses. The approach reflects the government's awareness than even the larger Indian companies do not nearly match the First World multinationals in size and strength,[41] and that the ability of the Indian MNCs to compete for international business may therefore require combined efforts. The Indian Ministry of Commerce has defined areas in which single government-owned corporations can bid for overseas projects, and other areas in which government-owned companies are required to consult with one another before bidding on such projects. The Indian government has alos been trying, unsuccessfully so far, to encourage privately-owned Indian corporations to work jointly with government-owned corporations in bidding for overseas business.[42] Thus, the Indian government has made it acceptable, and in some cases mandatory, for Indian corporations seeking and carrying out foreign business ventures.

The government of India has also displayed its interest in and support for tripartite joint ventures in which Indian corporations join with multinationals from other nations to do business in Third World countries. An Indo-United States trade agreement has been established to explore the possibilities for such ventures with American firms, and the Indian Investment Centre, a governmental agency has also been working to facilitate such arrangements.

To summarize, the above discussion indicates that multinational corporations from India share most of the characteristics of MNCs based in the Third World countries. Motives for foreign direct investment that Indian MNCs share with TW MNCs include restricted opportunities for domestic growth, the need to protect the export market, and encouragement from the home country government.

In terms of investment strategy, the Indian MNCs invest in countries that are geographically and culturally close to the home country, encourage the formation of joint ventures with local and other investors using the mode of foreign investment and minority ownership of foreign affiliates.

V.2. The Korean Multinationals

The Republic of Korea (hereinafter referred to as Korea) is no longer only a reciepent of foreign direct investment (FDI). It is also emerging, slowly but steadily, as a source. Korea now occupies a prominent place among a small group of Third World nations (Argentina, Hong Kong, India, Singapore, Taiwan, Brazil) whose firms have been establishing foreign direct investment, thereby earning the label of "multinational". The total number of overseas joint ventures and subsidiaries established by Korean multinationals was 298 by the middle of 1980,[1] and their total volume of overseas investments was $246 million (U.S.).[2]

Manufacturing accounts for only 12 percent of the overseas projects and of the total value of FDI by Korean MNCs. The authorized Korean FDI in manufacturing was $31,266,000 by June 1980.[3] This volume of investment is not a large sum, considering the size of overseas investment by firms from industrialized nations, but is also not an insignificant amount in the context of the size, resources, and state of economic development of Korea. The Korean Government has authorized 24 overseas manufacturing investments in a wide range of industries including garment, cement, electric cables, motors and diesel engines, paper, plywood, artificial chemicals, and shocks. Three of the 24 have been abandoned for various reasons. The overwhelming majority of these projects are located in developing countries, particularly Asia and the Middle East.[4]

V.2.A.(i) Firm Specific Assets of Korean Multinationals

The Korean multinationals have some self perceived ownership-specific assets, which enable them to invest directly in other nations. These assets are: their ability to initiate and operate overseas projects at relatively lower costs; suitability of their operating technology, the lower costs of their expatriate staff; the suitability of their products; and their skills in marketing.[5]

The most important asset of the Korean MNCs is their ability to establish and start overseas manufacturing projects at costs lower than those cited by their competitors. Korean MNCs also observed that their projections had been 10 to 20 percent lower than those of other firms, and, equally important, they were able to fulfill their commitments within the stipulated budgets.[6] Korean MNCs have been able to accomplish this by careful planning, lower costs of expatriate staff, minimum spending on infra structure, and by supplying necessary inputs at low prices.

The suitability of the manufacturing technology is also an important factor. The Korean MNCs generally stated - and were perhaps able to convince their overseas partners - that their manufacturing technologies were suitable to the conditions of the host countries. The Korean MNCs do not use highly capital intensive technologies in their overseas manufacturing plants.[7] Some MNCs also stated that their manufacturing technologies were simple to use. By a process of trial and error, they have been able to simplify complicated production processes and reduce time involved in production.[8]

Another asset of Korean MNCs which seems to give them an edge over the MNCs from industrialized nations is the commitment of their expatriate staff. The executives of Korean companies often observe that their overseas expatriate staff are highly committed to their work and are prepared to do everything within their capabilities to keep the name of the company and of Korea high in the international business community.[9] In addition, they seem to be content with relatively low remuneration. Of course, as compared to the salary and benefits given in Korea, expatriate staff do receive better treatment. The salaries that they receive are lower, however, than what European and American firms have to pay to their overseas employees. This asset has been of greater value to Korean MNCs in trading and construction than to those in manufacturing.[10]

The international marketing networks that Korean MNCs have built up during the past 15 years also help them to establish overseas manufacturing operations.[11] Nearly 33 percent of the Korean overseas manufacturing projects have been primarily involved in exports to third world countries. In these cases, it is obviously the ability of these MNCs to market the merchandise in international market which has facilitated their entry in the host nations. Another 33 percent have started or are expected to start exporting a part of their products. To most developing nations any prospect for manufacturing exports is indeed attractive.[12]

Two other variables which appear to be worth mentioning are the suitability of the products and skills in marketing. A survey has suggested that only 3 firms out of 18 regard their products to be more suitable to the conditions of host countries and only 2 state that they could enter and survive in the host country because of their skills in marketing alone.[13]

V.2.A.(ii) Location Specific Factors of Korean Multinationals

The geographical distribution of the Korean FDI in the manufacturing sectors can be explained with reference to location specific factors in the host countries. The most important factor has been the availability of relatively cheap inputs for manufacturing. The countries which possess an abundant labour force and have wages lower than Korea have attracted Korean investors in export oriented industries. Moreover, the availability of the necessary raw materials, such as, lumber, limestone, pulp and molasses, has also induced Korean firms to invest in host countries.[14]

The general business environment and the incentives provided by the host government are also important factors. Korean MNCs have been keen to avail themselves of the various incentives such as, tax holidays, exemption of import duties on the import of machinery and equipment, and unlimited expatriation of profits, dividends, and capital.[15] In several cases, before establishing their subsidiary joint ventures, Korean firms asked for and were promised protection against imports for a limited duration of time. Korean firms have shown a marked preference for countries which impose relatively few restrictions on economic activities or in which governmental regulations are not strictly enforced.[16]

The cultural systems of the host countries and their geographical proximity to Korea have undoubtedly influenced the decision of the firms with regard to the location of overseas manufacturing projects. The Korean firms first invest in countries such as Singapore, Indonesia, Thailand, and the Philippines, where the cultural environment, traditions, and behaviour patterns are least different from those of Korea and about which the Korean firms possess information and understanding.[17] Political ties also play an important role at the early stages. Only recently have Korean firms started moving to the Middle East, Africa, or Latin America.

Finally, Korean MNCs prefer the countries which, in their view, offer good prospects for mutually advantageous economic activities. Like the Japanese firms, they take a long-term view of their overseas investments.[18] They generally aim at the expansion of their operations to other industries as well. This explains why countries with rapidly growing domestic markets are preferred by Korean firms. The

2 regions that are seen as good hosts are the fast-developing countries of Southeast Asia and the rich nations of the Middle East.[19]

It is interesting to note here that, as predicted by theories of international investments, Korean MNCs have generally invested in "down-stream" countries, that is, countries that are relatively less industrialized than Korea itself. There are a few exceptions, like a printing plant in Japan, and a pulp project in New Zealand in which Korean MNCs have a minority share.[20]

A few Korean MNCs have invested in industrial countries. For example, Star and Sam Sung Electronics Company, the two largest Consumer electronic producers in Korea, established their manufacturing facilities, largely for assembly operation, in the United States to avoid American quota restrictions and antidumping suits. Sam Sung Electronics Company also made foreign investment in Portugal, the single case of manufacturing investment in the European area. Desire to gain access to a large market was the most important motive for this investment in Western Europe.[21]

Two other points are obvious from the above discussion. First, the firm specific advantages of the Korean multinationals are not the same as those which are usually associated with North American and European multinationals. Korean MNCs do not offer either new products or capital - intensive technologies that have been developed through research and development activities. Instead, these MNCs are able to compete on the basis of their low costs of production and, to a limited extent, on the suitability of their operating technologies to the conditions of developing countries. Second, there is marked similarity between the Korean firms and the multinationals nations with regard to location - specific factors.[22]

V.2.B. Government Policies

The discussion of above mentioned variables would not be complete without reference to the Korean government policies for the country's overseas investment. Like other developing nations, the Korean government defines the objectives of FDI and even specifies the sectors in which overseas investments are permitted prohibited, or encouraged.

The Korean government has clearly outlined the policies in Overseas Investment Guidelines issued by the Korean government, for overseas investments by its MNCs. It has specified the following four areas in which "overseas investment shall be promoted and supported":

(1) "investment for development and import of raw materials essentially required at home";

(2) "investment for overcoming any bottleneck in exports";

(3) "fisheries investment to secure fishing grounds";

(4) investment in industries in which "competitiveness in the world market has been weakened under the nations industrial structure."[23] The government strictly prohibits investments "which have serious adverse effects on the Korean economy." Investments in the form of "emigration funds" are also prohibited by the Korean government.

The two main objectives that the government seeks to accomplish are quite obvious from the above guidelines. First, it seeks to protect and expand its exports. The country has opted for export-oriented industrialization and has been successfully widening its industrial base by expanding its manufactured exports.[24] The government expects that its FDI will remove any "bottlenecks" or will directly or indirectly facilitate fresh exports of goods and services. Second, the government seeks to assure the supply of raw materials needed for the nation's industries, or foodstuff (fisheries) for domestic consumption and exports. Korea lacks raw materials and minerals to sustain its industrial production and depends heavily on foreign countries for a steady supply. The government therefore encourages its firms to establish subsidiaries/joint ventures in resource development projects.[25]

The Korean government has sanctioned only those overseas manufacturing projects that serve either of the two objectives. Most of the overseas projects have been devised to protect the existing markets or explore new opportunities.

In at least half the cases, the Korean firms had been exporting to the host countries before establishing their subsidiaries/joint ventures. The firms realized, however that there was some threat to their markets, or that there would be new opportunities for expansion if they started indigenous production. Only on these grounds were the exporting firms authorized to establish overseas manufacturing operations.[26]

Korean companies have also been permitted by the government to start foreign subsidiaries and joint ventures for serving the markets of third world countries. As the guidelines imply, Korean firms were losing their comparative advantage in many labour-intensive industries, such as, garments, artificial jewellery, electric and electronic goods, bags and so on.[27] There are several reasons for this state of affairs. The wages in Korea have been steadily increasing over the past decade, making labour intensive products less competitive in world markets. In addition, many industrialized countries have imposed quota restrictions on the import of textiles and electric and electronic products. Shipping costs have also increased. Firms in these industries have been permitted by the Korean government to locate part of their manufacturing operations in such countries as the Philippines, Srilanka, Thailand, El Salvador, and Honduras. The wages in these countries are usually 1/2 to 1/3 those paid in Korea.[28] In addition, the quota for textile products from these countries are undersubscribed, permitting Korean firms continual access to the markets of North America and Western Europe. Seven out of 21 overseas joint ventures from Korea are located in export processing zones.[29]

The second objective of FDI, that is, the supply of the needed raw materials, is only marginally fulfilled by overseas manufacturing investment.[30] Only in a few cases have Korean firms started overseas manufacturing activities for the import of the semi-processed raw materials. A good example is provided by Sun Kyong Company, which manufactures plywood in Indonesia and exports part of its output to Korea.[31] The company established its Indonesia subsidary because Korea is planning to prohibit the export of lumber. Yeung Wha, which has formed a joint venture for manufacturing solder in Thailand, also expects to sell part of the output in Korean markets.[32]

The government, then, largely determines the objectives of FDI by Korean MNC. The Korean government has been able to accomplish this by regulation and inducement as well as by putting pressure on large business houses, which have a close working relationship with the government.[33] This does not mean that individual firms have no motives for making overseas investment other than the two main objective identified by the government. In fact, at least three other motivations can be identified; sale of technology prestige associated with foreign operations, and acquisitions of new skills and expertise.[34] These motivations are at best of secondary importance, however, as far as the government is concerned. In the case of Korea, it is the government decision which ultimately counts in overseas investments.[35]

To sum up, the volume of Korean investment in overseas manufacturing is likely to grow in the near future. The government has shed its initial reservations and is more sympathetic to foreign ventures. The technological and managerial capabilities of the country are also growing. The country has started investing heavily in research and development. The Korean companies themselves are becoming more enthusiastic and seem to have been encouraged by the experience of those firms that have ventured abroad. Moreover, the Korean multinationals have, in the view of Korean government officials, earned a good name in many host countries, particularly in Asia and the Middle East. Their image has improved in these countries which offer excellent prospects for their direct investments.

V.3. Multinationals from Hong Kong

Hong Kong began to invest overseas in manufacturing noticeably in the early 1960s, but a rapid growth in foreign direct investment (FDI) occurred only in the past few years.[1] At present, most of the FDI is concentrated in Asia, particularly in Indonesia, Malaysia, Singapore, and Taiwan. Many Hong Kong firms also have established subsidiaries in African Countries, such as Nigeria and Ghana.[2] There is also the notable example of the Hong Kong firm, 'Stelux', acquiring 29 percent of the U.S. Bulova Watch company.[3] Most important, with the pursuit of "new" economic policy in China, a vast and so far unexploited ground has suddenly opened up for Hong Kong and other countries to invest in manufacturing projects in China.[4] According to information available, most of the FDI in manufacturing is made by Hong Kong-based firms, and not by individuals or foreign-owned subsidiaries in Hong Kong. In this way most of the FDI from Hong Kong can be regarded as activities of Hong Kong multinationals.[5]

V.3.(i) Characteristics of Hong Kong Multinationals

The fundamental reason for most Hong Kong firms to invest abroad was the search for a lower cost structure, so that they could export their products to the established markets (mainly in developed countries) at a more competitive price.[6] The rising labor and land costs, and the increasing competition from other newly industrialized countries exerted great pressure on firms to invest overseas. In most cases the objective of foreign investment was not to open up, maintain, or expand the market in the host countries, but to maintain or expand the market in the developed countries. This can be called a defensive type of foreign investment. For the developed countries, the experience was investment following trade. When these firms found that their exports were meeting increased competition from the products of local firms they began to establish subsidiaries in the overseas markets.[7] For Hong Kong, the pattern was somewhat different. When faced with competition from other developing nations in the markets of developed countries, Hong Kong firms began to establish subsidiaries in other developing countries (which may or may not have been its competitors) and to export these products to the established markets. The cost-saving effect was derived from combining the relatively cheap management skill of the parent firm with the relatively cheap labour and land in the host countries.[8]

Second, the other major reasons for Hong Kong investment abroad included, (1) evading the quota restrictions by locating some of their production in countries not yet under such restrictions. Thus, when in the late 1950s some developed countries limited import of clothing and textiles from Hong Kong that country promulgated 'voluntary' export quotas; the Hong Kong MNCs set up affiliates in Singapore; when in turn, quotas were applied to that country's exports, Hong Kong MNCs invested in Malaysia and Thailand. Then the Lome Convention (signed in 1975 by the members of the European Economic Community and 46 developing countries in Africa, the Caribbean and Pacific) exempted from duty all industrial exports from these ACP nations to the EEC, and provided the incentive for investment in countries like Mauritius. (2) Internalizing the use of technology in order to encourage an outward flow of investment to diversify the economy.[9] Hong Kong MNCs invested abroad mainly to acquire technology for domestic production. Hong Kong investments in chemical plants in Malaysia, Singapore and Taiwan are examples of investment made with the primary aim of acquiring technological expertise. And (3) overcoming the competitive pressure arising from an oligopolistic market structure.[10] The pressure of competition at home, often from developed country MNCs, tends to squeeze them abroad.

Third, there are also some firms that invested overseas for the purpose of taking up opportunities not available in Hong Kong. Investments in chemicals, wood and wood products, and food processing in other Asian countries are examples.[11] These can be called the 'aggressive type' of foreign investment. They established subsidiaries in wood and wood products to be near the resources and invested overseas in chemicals because of the concern in Hong Kong about environmental deterioration. In these cases, the form of ownership is usually joint venture. The Hong Kong MNCs contributed capital and management skills while the partners supplied the necessary technical skills.[12]

Fourth, technology transfer might occur in different directions for the aggressive and defensive types of foreign investment. By investing in well-established industries such as textiles, garments and electronics, Hong Kong based firms perform the function of transferring their relatively more advanced, and some times more appropriate, technologies and management skills to the host developing countries.[13] However, when Hong Kong firms invest overseas in industries such as chemicals, opticals, and machinery which are not yet well-developed at home, there is sometimes a "backflow" of technology from the host countries to Hong Kong. This is made possible through formation of joint ventures with the developed-country or host country firms that have already acquired considerable technology in those industries.[14]

Fifth, the Hong Kong based firms usually do not attempt to build a vertically integrated structure with their overseas subsidiaries. In addition, if there are several overseas subsidiaries, usually no attempt is made to integrate the subsidiaries. However, the recent Hong Kong investment in China has developed a significantly different pattern. In this case there is usually a vertically integrated structure between the parent firms and the subsidiaries in China in the sense that the subsidiaries are only responsible for the more labor-intensive operations of the entire production process. This is very similar to the type of relationship existing between the parent firms in developed countries and their subsidiaries in developing countries.[15]

Sixth, when making defensive investments overseas in the industries well-established in Hong Kong, it is generally true that the foreign subsidiaries are smaller in size and lower in technology level than the Hong Kong parent firms. This usually means that those products which are more labor-intensive and less-sophisticated are taken up by the subsidiaries. This is not true of aggressive FDI in the industries not well-established in Hong Kong. In this case, the overseas subsidiaries are usually much larger than the Hong Kong parent firms.[16]

Seventh, not many of the Hong Kong companies making foreign investments can be considered large firms. This is somewhat different from the case of the developed country multinationals, which are generally large. During the period when developed-country MNCs first began to appear, this was especially true, although today the evidence on the size of multinationals is rather mixed. For some countries foreign direct investment is dominated by large firms. In the case of Hong Kong, a large portion of its MNCs is medium sized, employing 200 to 1,000 workers.[17] This can perhaps be explained by the fact that the keenest competition in Hong Kong is among these medium sized firms. The lack of opportunities to expand locally vis-à-vis the large firms drives these medium-sized companies to look for opportunities overseas. Another reason why most of the Hong Kong firms that invest abroad are medium sized is a circumstantial one.

Eighth, the competitive edge of Hong Kong firms over local firms and other multinationals is mainly accounted for by the high quality and relatively low cost of their management personnel.[18]

Hong Kong invests abroad mainly in the simpler of its major export products - textiles, garments, plastic goods and simple consumer electronics. Those of its export products demanding more intensive use of skills and marketing - toys, fashion garments, watches and the like - do not figure largely in its overseas investments. Essentially, the overseas affiliates transfer the production of relatively standardized products with well diffused technologies. These face increasingly severe competition from new entrants into world trade and industry, which enjoy the advantage of lower labour and land costs. Thus, Hong Kong enterprises are forced to locate in those very countries in order to take advantage of lower production costs. This shift is further encouraged by protectionist policies in Hong Kong's major markets, which allocate quotas for textiles and garments by country - once the home quota is filled, exports can only take place by producing in other countries with unfilled quotas (and less competitive local manufactures). Products which require greater design, marketing and entreprenurial skills are kept in Hong Kong because protectionist and competitive pressure are relatively less on these products.

Hong Kong's direct investments are unusual in that they tend to be export oriented rather than import - substituting, and they contain relatively little embodied technology from the home country. Hong Kong investors source their equipment worldwide, and have very limited capabilities to design and manufacture capital goods at home. Though some minor modifications are often made to machines sent to overseas affiliates, the basic production technology is imported. The technological contribution of Hong Kong investors is thus that of efficient production engineering rather than basic equipment or plant design and manufacture.

Since this is unlikely to provide a special competitive edge in international markets, their monopolistic advantages must lie elsewhere, in good management and an intimate knowledge of export market.

This list of generalizations indicates that Hong Kong multinationals, and probably other third-world multinationals as well are not very different in their FDI behavior from those of the developed countries. However, the evidence on the importance of management skills as a factor of production, the possibility of a two-way technology flow and the set of complex factors affecting the motives of foreign investment is significant enough as to reconsider the existing theories of foreign investment when applied to TW multinationals.

V.3.(ii) Ownership and Equity Participation

A considerable number of the Hong Kong MNCs are themselves joint ventures with non-Hong Kong investment which in most cases represents portfolio investment of individuals or conglomerate activities of some foreign firms. As such, these firms can still be regarded as Hong Kong MNCs in as much as no parent firms exist elsewhere.[19] The non-Hong Kong investment includes that from Japan, Taiwan, Europe and the U.S. There is considerable investment from Southeast Asian countries such as Thailand, the Philippines and Indonesia. Hong Kong investors like other developing countries' MNCs seldom go abroad and take up 100% ownership even if this is permitted by the foreign investment laws of Hong Kong.[20] Hong Kong MNCs in many cases enter into partnership with the local entrepreneurs of the host country, some of whom are ethnically of Chinese origin.[21]

V.3.(iii) Financing Hong Kong MNCs

Hong Kong multinationals investing in small overseas manufacturing projects use their own reserves, with banks playing only a small role. Nor does the government have any policy to provide financial assistance to the investing MNCs. Hong Kong-based multinational banks are not as heavily involved in making loans to small Hong Kong firms or individuals who have successfully negotiated sizeable projects in other countries.[22]

To summarize, Hong Kong MNCs have expanded their international involvement. To a great extent, the rise in foreign involvement in Hong Kong by MNCs reflects their rapid economic development. The need for additional export platforms for textiles and garments and other light industrial goods has been a powerful factor inducing firms to internationalize. Hong Kong MNCs show a distinct preference for minority equity participation.

Though the Chinese government agreed in negotiation with the British that Hong Kong will retain its economic system for fifty years after 1997, there is still much doubt and uncertainty about Hong Kong's future. This uncertainty will reinforce the strong internationalization trend among Hong Kong-based firms. While some Hong Kong manufacturing firms have invested in adjoining Chinese provinces, many are seeking and will seek to transfer production facilities further abroad.

V.4. Singapore Multinationals

Singapore, originally called "Temasek" or sea town, is an island city-state with a population of about 2.5 million and an estimated 1983 GNP of about U.S. $15 billion.[1] It has a managed free-enterprise economy where the government plays an important role, not only in economic planning, but also as a major owner of large segments of the economy.[2] The government owns a number of major listed and unlisted companies through its holding companies, such as Temasek Holdings, Sheng-li Holdings and MND Holdings. Examples of major companies in which the government has a controlling interest include financial institutions, such as the Development Bank of Singapore (DBS) and the Post Office Savings Bank (POSB), and industrial firms such as the Giant Keppel Group, Sembawang Shipyards, Neptune Orient lines, Singapore Airlines, National Iron and Steel, Intraco, and others.[3] In addition, the government owns all of the utilities and other economic infrastructure in Singapore. It is a major force in the property market through the Housing and Development Board, and the Urban Redevelopment Authority. Nevertheless, in sharp contrast to the situation in most other countries, Singapore-Government-owned companies are dynamic, innovative and profitable.[4] Singapore continues to provide an excellent environment for free enterprise and its economy has managed to compile a remarkable record of economic growth.[5]

Singapore's 1983 per capita GNP of over six thousand U.S. dollars is second only to Japan in all of Asia.[6] Singapore is one of the world's largest oil refining centers, a major supplier of electronic components to the world market, a major centre in this region for marine construction and ship-repairing, and an international financial centre of growing importance.[7] Furthermore, the Singapore economy is expected to continue to have one of the highest growth rates in the world over the next two decades.[8]

Thus Singapore, the lion city, is an attractive and dynamic business setting and its government has attracted a large amount of inward foreign investment from other countries. With a rapidly growing and dynamic internal market why should Singapore-based firms invest in foreign operations especially since foreign markets can also be served through exports and by licensing arrangements with local producers? The next section attempts to answer this question.

V.4.(i) Reasons of Singapore Companies to Invest Overseas

V.4.(i)(a) Colonialization/Influence of Foreign Firms

The most important reason why Singapore companies have overseas investments is that many of them are, or until recently were, managed by expatriate European managers, and in many cases, were part of a European multinational firm. These companies have become Singapore firms as the foreign owners and, in many cases, the foreign managers were replaced by Singapore citizens starting in the late 1950s.

Moreover, if Singapore-based companies have to continue to compete effectively in the global market place, especially against countries such as Hong Kong, Taiwan and South Korea, they must make foreign direct investments in other countries in order to acquire the many advantages of being multinationals such as those in Hong Kong, South Korea and Taiwan. These advantages include access to larger markets and to lower cost raw material, capital labour and technology, as well as increased ability to ride out and overcome tides of protectionism and other barriers to export markets.[25]

V.4.(i)(b) Limited Domestic Market

The reason why Singapore-based firms might want to invest overseas is the limited size of their local market. In addition, while a number of its foreign markets can be served by exports from Signapore, there are a number of problems in depending solely on this strategy. One problem is that of possible protective actions by the foreign trading partner through the imposition of tariffs, quotas, or other non-tariff barriers that impede import attempts and help to generate or protect local employment.[10] As an example, it is the announced policy of the Indonesian government to reduce its economic dependence on Singapore based firms and, in the recent past, even the industrialized countries have started erecting higher walls of protectionism.[11] Another problem, arising from dependence on exports to service foreign markets, is the limited ability of such firms to monitor and meet competition from lower cost local producers.[12]

Moreover, since the majority of the world's trade consists of movements of goods and services among affiliates of the same company, a Singapore company may indeed be able to increase its exports if it has direct investments overseas. An additional advantage of foreign direct investments is that as productive capacity and the size of a firm increases, it can take advantage of economies of scale in administration, marketing, finance and research and development of new products.[13]

V.4.(i)(c) <u>Access to Cheaper Source of Raw Material, Labour and Taxes</u>

A reason why Singapore-based companies may want to invest overseas is their desire to obtain access to cheaper sources of raw material, labour, and an environment of lower taxes and fewer government regulations.[14] In order to ensure steady supplies of raw materials in the face of shortages or other market disruptions, a company must own and control the source of its raw materials. Ownership of the sources of raw material also gives a company other advantages traditionally associated with vertical integration, such as better quality control and higher overall profit levels.[15] For Singapore based companies, investment in sources of raw material would generally mean undertaking foreign investment. Singapore labour costs are rising rapidly, making the cost of a number of industries too high for Singapore's companies.[16] These companies are also increasingly facing shortages of certain categories of labour, especially in the unskilled or less educated categories. Furthermore Singapore companies using foreign guest workers face a particular problem since the Singapore government has adopted a policy to reduce and ultimately eliminate the use of foreign workers.[17] Those companies engaged in labour-intensive industries must therefore, shift production overseas to countries with cheaper and more available labour in order to remain competitive. This has already been the case for a number of textile companies.

An added advantage of undertaking foreign direct investment can be access to a wider variety of financing sources including subsidized financing designed to encourage investment in particular areas or industries.[18] Further, Singapore companies invest in countries such as Hong Kong, in order to gain access to lower taxes and fewer government regulations.[19]

V.4.(i)(d) <u>Comparative Advantage</u>

The reason why Singapore based companies may find it useful to undertake foreign investments is to exploit better their comparative advantage in serving the markets of neighbouring countries.[20] Because of their geographic and cultural ties, Singapore based companies may find that they have better knowledge and skills for serving the markets in other Southeast Asian countries than do firms from other developed or developing countries.[21]

Foreign investments by Singapore firms may be facilitated in other countries of this region where the ethnic Chinese community is active in business and thus offer the possibility of a local partner with a very similar operating style and approach to business as the Singapore firm. Thus, Singapore based firms can also profitably form three-way joint ventures with firms from such countries and from the industrialized countries to serve the markets in the Southeast Asia region.[22]

V.4.(i)(e) <u>New Technology and Market Strategy</u>

Singapore based firms invest overseas because of their need for acquiring reliable sources of new technology and market intelligence. These reasons are particularly true for foreign investments in the developed economies. While some technology may be acquired by the Singapore economy when advanced country multinational firms invest in Singapore, consistent access to higher levels of technology that will make and keep Singapore companies competitive in global markets can best be acquired through ownership of appropriate (small, high technology) firms in the advanced countries.[23]

Another reason for making investments in such advanced country firms is to acquire the knowledge and skills to compete effectively and consistently in the dynamic markets of these advanced countries.[24] Thus, in addition to the technical knowledge and managerial skills, a Singapore company can acquire from such an acquisition a continuing source of market intelligence that may contribute towards its ability to protect and develop its export markets.

V.4.(i)(f) Diversification

Singapore firms make FD investments in order also to diversify the political, economic, and business risks.[25] Adverse developments are unlikely to take place simultaneously in many different countries and, thus, while business in one country (say Singapore) may be bad it may be much better in another country so that the overall performance of the firm is protected from the swings in any one country's political, economic and business environment.[26]

V.4.(ii) Modes of Foreign Investment of Singapore Multinationals

Singapore multinationals generally prefer to be minority partners in foreign joint ventures, except in Malaysia where, because of close historical ties, they have a substantial number of wholly-owned subsidiaries. The relative importance of minority joint ventures and other forms of indirect investment is attributed to the risk averse approach of

Singapore firms, rather than a relative shortage of funds or host country restrictions. Even where wholly-owned subsidiaries are permitted, as in the free trade zone of SriLanka, Singapore firms have preferred minority joint ventures.[27] Indeed, the more unfamiliar the territory, the more likely the Singapore owned firm will engage in contractual resource transfers such as licensing and turnkey projects.[28].

Unlike SriLanka, China has defined specific modes including processing and assembly, compensation trade, co-production and joint ventures.[29] In processing and assembly, the foreign investor provides the production equipment, raw materials and intermediate inputs, and has the responsibility of marketing the finished products. The Chinese carry out the processing and assembly functions, and the fees charged are offset against the installment payments for the capital equipment.[30] In compensation trade, the foreign investor providing the capital and technology, and is paid in the form of finished products.[31] Recent Singapore investments in China have included not only minority joint ventures but also technology contracts, compensation trade, and joint production.[32]

Most home-grown Singapore multinationals are in industries with mature technologies. Although they have developed some ownership-specific advantages, they have no internationalization advantages.[33] As a result, they have no strong reason to set up wholly-owned foreign subsidiaries. Their investment mode is shaped primarily by locational factors. Where locational advantages arise from geographical closeness or historical or ethnic ties, Singapore-owned firms have gone into joint ventures, though mostly on a minority basis. But where there are no locational advantages, firms with ownership-specific advantages prefer contractual resource transfers. For example, Acma, a Singapore firm, decided on a joint venture in Indonesia, but sold its technology to contracts in Pakistan and SriLanka as well.[34]

To sum up, in the last two decades Singapore firms have expanded their international involvement.[35] To a great extent, the rise in foreign involvement by firms from Singapore reflects the rapid economic development of Singapore. In Singapore where the domestic market is small and many large firms are in mature industries, the diversification and the need for new markets are key factors for foreign involvement.

Singapore is smaller investor in overall terms than Brazil, but a much larger investor in the manufacturing industry. Most of its activity occurs in Malaysia, which has close historical, commercial, and ethnic ties.

V.5. Multinational Firms from Latin American Countries

One of the most remarkable trends in the present stage of development in Latin America is the emergence of a widespread phenomenon of internationalization of local firms actively engaged in direct investments abroad and in the exports of technology.[1]

V.5.(i) Pattern and Trends of Latin American Foreign Direct Investments (LAFDI)

In Latin America, the different levels of development among countries coincide with their different positions and roles with regard to the outflow and inflow of intraregional FDI. Argentina, Brazil and Mexico are the most important source countries of the region.[2] More than 90 percent of the Argentinian projects are located in other Latin American countries, and more than half of them are in manufacturing, particularly the metallurgical, machine tools, food and automotive sectors. About fifty firms, the majority in the private sector, appeared to be responsible for these operations.[3] However, different sources indicate that other important investments were carried out decades ago. Three of the larger Argentinian firms, the conglomerate Bunge-y Born, the textile company 'Alparagatas', and the mettalurgical firm Siam Di Tella, expanded to Brazil and other Latin American countries at the end of the last Century or during the first decardes of the present century. The present influence of

Argentinian firms is particularly evident in the neighbouring and small economies of Uruguay and Paraguay,[4] where six of the largest fifty firms, and two of the ten largest companies, respectively, are Argentine subsidiaries.

Brazil is probably the most impressive case of aggressive internationalization of domestic firms in Latin America. The emergence of Brazilian enterprises in the world arena is reflected in the appearance of eight of these companies among the 500 largest concerns outside the United States listed in 1978 by 'Fortune'. Despite the lack of official information on investments abroad and the limits of statistics of host countries (in nine Latin American Countries the Brazilian foreign investments amounted to $60 million in 1978), there is clear evidence of the importance and diversity of Brazilian involvement in projects abroad.[5]

A salient feature of the Brazilian experience is the entrance into the markets of developed nations, such as the United States, France and other European countries,[6] and into the African markets. In Nigeria, for example, some forty Brazilian companies are starting to assemble a wide range of consumer goods.[7]

In comparison with Argentina and other Latin American countries where foreign investment has been largely made by private companies following the market impulses, the Brazilian performances seem to be closely linked to the role of some public corporations, such as the trading company

'INTERBRAS', ~~the oil-exploration company~~ Braspetro (both subsidiaries of the state oil corporation 'Petrobras') the Banco de Brazil, and other major state corporations[8] such as iron and steel concerns 'SIDEBRAS' and vale do Rio Doce Company. INTERBRAS, exploiting the bargaining power resulting from the huge oil imports of PERTOBRAS, and the Banco do Brazil with a network of fifty-one agencies in foreign countries serve as channels for promoting Brazilian business abroad. These ventures include the sale of technology and construction and consulting services to Latin American, Asian and African countries.[9]

The registered stock of Mexican foreign investment in nine Latin American countries amounted to U.S. $62 million in 1978.[10] However, a business organization revealed in 1976 that approximately thirty Mexican firms were engaged in more than fifty projects in eight South American countries, involving wholly owned subsidiaries and equity and contractual joint ventures for the production of steel, petroleum, chemicals, paper, electronics, and construction and engineering services.[11] Mexican companies are also active in Central America and the Caribbean, where several large projects were launched or negotiated in recent years, including a steel mill and a pulp and paper project in Honduras, a bauxite project in Jamaica, a fertilizer plant in Costa Rica, and a multinational merchant fleet with the Caribbean countries.

Joint ventures with local partners or associates are the most frequent organizational form of Latin-American Foreign Direct Investment (LAFDI). Among the 313 cases, around 65 percent have adopted such an arrangement. The percentage is higher for the manufacturing sectors and lower for banking, building and trade.[12] The joint venture preference is corroborated by the official country records.[13a] Of the Argentina firms that registered investments abroad in 1967-1976, 60 percent declared that they had local partners in the host countries.[13] Nearly 80 percent of all companies with Latin American capital registered in Ecuador during 1974-1976 had local partners.[14]

Other nonequity forms of exporting technology are also very common in the Latin American experience. Among contractual forms, licensing agreements are frequently used by Latin American firms for doing business abroad, but the most significant development is the growing trend of exporting consulting and engineering services and turnkey plants by firms in Argentina, Brazil, and Mexico.[15]

V.E.2. Strategies and Motivations

Latin American corporations largely invest abroad for reasons not very different from those explaining the expansion of firms of developed countries. The Latin American evidence also seems to support the findings of L.T. Wells with regard to strategies of developing countries investment in Southeast Asia.[16] However, the following remarks suggest that motivations are not exactly similar to those firms from either developed or other developing countries.

In a developing region like Latin America, where changing political and economic circumstances are so common, with government shifting periodically from interventionist to conservative policies, and vice versa, it is obvious that one of the basic motivations of local firms with regard to foreign investments is "diversification of political risk".[17] Foreign investment by Argentine firms during the most difficult period of the Peronist Government, by Chilean firms during the Allende administration, and by Peruvian companies during the first year of the 1968 revolution, although generally unreported by the home governments, explain, to a great extent, the upsurge of L.A.F.D.I. in other countries during the last decade.

International operations are often conceived as a device for circumventing domestic tax burdens, labour laws, and foreign exchange restrictions. A well know Peruvian soft drink company engineered an intricate network of companies in other Latin American countries that maintained control of patents and trademarks; the main purpose was the accumulation of foreign exchange holdings.[18] However, as the experience of the two Argentine drug firms in Mexico suggest, there are cases in which the decision to move abroad is a normal development of the firm's growth strategy. There are also cases of firms that have evolved from small ventures with a narrow domestic market into internationally oriented organizations with a regional plan and a strategy for international complementation.[19] For example, 'Carvajal', a family owned firm for Columbia specializing in the manufacturing of paper products and supplies, initiated a chain of investments in other Latin American countries after becoming one of the biggest firms in the sector.[20]

However, business rationality is not the only motivation for investing abroad in Latin America. Political considerations other than the avoidance of political rise and macro-economic objectives are behind some joint ventures involving the state enterprise, or governments of different countries themselves. For example, the project of YPF, the national oil company of Argentina, to build a pesticide plant in the Bolivian 'altiaplano' seemed to be aimed at improving the overall relations with the Andean country rather than motivated by the rate of return of project.[21]

V.5.(iii) Preservation of Export Markets

Much of LAFDI from the larger countries of the region is a reaction to the import-substitution barriers imposed by the smaller countries to protect their late industrialization efforts. For many Latin American firms, the markets of the region have gained great significance. Higher tariffs and import quotas established by less-advanced importing countries create a direct threat to such exports. In fact, Latin American exporters began to meet circumstances very similar to those which triggered the direct investment of firms of industrialized countries in the region during the first period of import substitution in Latin when America. The cases studied by INTAL (Institute for Latin American Integration) revealed that most of the firms had export experience in the recipient countries before their decision to invest in them.[22]

In recent years, the growth of Latin American exports of manufactures to industrialized countries and other Third World regions also has motivated the establishment of firms in those markets which are threatened by protectionist pressure.[23] For example, Brazilian corporation, the conglomerate 'Coperscar' took over in 1977 the United States Company 'Hill Brothers' and spread into Africa to assemble semifinished Brazilian products.

Defensive reasons are also behind cases of investments in other countries when the risk of losing an export market stems not from measures of host nations, but on the contrary, from policies of the home government that tend to discourage exports through, for instance, an overvalued exchange rate or the elimination of tax or financial incentives. The anti-inflationary policies applied in recent years in countries such as Argentina have stimulated decisions to invest abroad as the only way for preserving markets that have become difficult to serve through exports.[24]

V.5.(iv) Penetration into New Markets

During the last decade, the high rates of growth of certain countries of Latin America incited the interest of many foreign firms - among them, companies of the other countries of the region. The expansion of the economies of Brazil, Venezuela, and Ecuador as well as the enlargement of domestic markets of the region through subregional measures, such as in the Andean Group and the Central American Common Market, explain some trends in intraregional FDI.[25]

The active search of investment opportunities in other countries also can be a response to recession in the home market. Overcapacity and huge fixed costs during the periods of weak local demand led Argentina, Brazilian, and Mexican engineering and construction firms to fight for big contracts throughout Latin American and other regions.[26]

In many cases, an important motivation to move abroad is the possibility of creating a stable flow of exports of parts and components for the production site of the recipient country.[27] The common ownership established between exporter and importer ensures the external demand and allows the enlargement of the production scale or the reduction of the idle capacity in home market.[28]

Finally, the interest in new markets is sometimes the outcome of a new trend in Latin American relations: the search for suppliers of technology within the region. Despite the historical orientation toward the market of productive resources in developed countries, there is a growing demand for the technical skills of other Latin American countries. For example, during 1978, a government mission from Ecuador visited Argentina and other countries to contact the local industries and offer them possibilities and incentives for investing in Ecuador; it returned with several projects in hand.[29]

V.5.(v) Raw-materials Exploitation

Several Latin American companies have moved abroad to exploit raw materials for which the home country is a net importer. In so doing they try to stabilize the supply and prices of raw materials.[30] Such were the reasons given by the Argentina steel maker GRASSI for obtaining government approval for setting up a plant in Brazil that would ensure the supply of iron alloys threatened by the shortages of manganese reserves in Argentina.[31]

The most relevant cases belong to the big state-owned enterprises in the oil and mineral sectors. The great dependence of Brazil on foreign oil explains the creation of a subsidiary of the state oil company 'PETROBRAS' for undertaking exploration abroad and its projection to several Middle Eastern and African countries.[32] In addition, the Brazilian state steel enterprise SIDERBRAS has negotiated a joint venture with the government of Columbia to exploit coal in that country as a way of gaining independence from the

U.S. sources of such raw materials; and the public-sector oil company YPE of Argentina obtained an important service contract for the exploration of oil in Ecuador.[33]

These are, in addition, a few cases of private firms that engage in the exploitation of raw materials abroad to supply the host countries. Cia, Minera, Buenaventura, a Perurian company, has equity shares in mining projects in Venezuela, Ecuador, and other Latin American countries.[34]

Conclusion

The internationalization of Latin American firms should be viewed as a natural consequence of the process of industrialization in the relatively small markets of the region during the last decades. Argentina, Brazil, and Mexico have the largest, most diversified experience as home countries and provide the most interesting cases of corporations with an international approach to their expansion strategies.

The main reasons for the overwhelming concentration of flows of Latin American capital and technology within the region depend on the existence of important development gaps between the different countries. Firms in the more-advanced countries of the region have through the years accumulated industrial experience and have learned to adapt their technologies to the local conditions. Such adapted technologies and productive know-how can be be transferred to less-developed countries willing to produce the same products and facing similar restrictions in terms of market sizes, availability and costs of factors, and other local peculiarities. In most cases, there are no local competitors in the recipient countries, and the problem of finding a partner is frequently resolved by the association with a host government development corporation.

The competitive advantage of Latin American firms vis à vis MNCs from developed countries are generally related to the lower cost of their projects stemming from their smaller scale, lower overhead costs, lower automation or less expensive production techniques, including the lower costs of their managers and technicians. The participation of public enterprises as promoters and partners of Latin American joint ventures is another factor explaining the advantages over transnational corporations.

State participation also plays a key role when the governments agree to use their control of their own markets in order to ensure the minimum demand necessary for setting up an efficient plant when the size of the only one market is not sufficient. From the preceding analysis, some forecast can be made about the future international projection of Latin American firms. It seems reasonable that the increasing participation of more Latin American countries and their firms in international operations will follow the expansion of industrialization process and the export-oriented strategies of the countries of the region, that the active presence of the privately owned and public sector corporations in a number of industrial sectors will ensure the effectiveness of factors and motivations to expand and to look for alternative sources of capital and technology in other Latin American countries, that the existing gaps of development between the different countries will not diminish substantially in the next future; and therefore that the advantages of complementation derived from the interregional joint ventures will persist.

Overall Conclusion to Chapter V

In summary, this chapter has examined some predominant features of Third World multinational enterprises in some selected developing countries.

In terms of investment strategy, an additional characteristic of these MNCs involves the fact that they represent a concentration of foreign investment in countries (geographically close and culturally similar to their own) where they have formed joint ventures with local and other investors, an overwhelming mode of foreign affiliates. For the most part, the emphasis is on low cost, labour intensive, small scale operations using mostly intermediate level technology to serve markets that would be considered too small or too hostile in some cases for the MNCs of developed countries.

The discussion in this chapter also seem clear that a significant number of MNCs considered in this chapter are feeling the same pressure and urges to move into the international arenas that MNCs from other TW and developed countries have experienced.

So far as the motives are concerned, they can be multifaceted and complex. For example, Hong Kong MNCs are influenced primarily by classic location cost variables: as export-oriented firms facing intense competition from more recent industrializing countries, they look abroad to reduce labour costs, and to find more ample supply of labour. Moreover, Hong Kong MNCs tend to be medium-sized rather than large firms. The pressure of competition at home (often from developed country MNCs) tends to squeeze them abroad. Indian and Latin American MNCs go abroad because of government restrictions. Direct investment is thus one means of escaping the government constraints. So far as Korean and Singapore MNCs are concerned the motivations for Korea's overseas direct investment are basically defensive. The Korean MNCs invest abroad to secure the overseas source of raw materials to serve their home-based production complex and to serve overseas market for their industrial export. Hong Kong MNCs are also influenced by production costs and accessibility to developed country market (as affected by tariff and quota regulations). Indian firms are more concerned to serve domestic markets, so are more influenced by import substituting policies in the host countries.

FOOTNOTES - CHAPTER V

V.1. Indian Multinationals

1. According to the Indian Ministry of Commerce data, the Industrial sector of the Indian economy has shown an average growth of 6.3 percent per annum after adjustments for inflation for the period from 1947 to 1979. Some Industrial sectors have shown an even greater growth than the sevefold increase in overall industrial production between 1947 and 1979.

2. See R. Agarwal and J.K. Weekly, "Foreign operations of Third World Multinationals: A Literature Review and Analysis of Indian Companies" (1982) Journal of Developing Economies, Vol. 9 at 19. See also R.B.L. Garg "Exporting Consultancy Services", (1980) Indian and Foreign Review, 15th February, at 13-15.

3. See M. Kidron, Foreign Investment in India (London: Oxford University Press, 1965) at 185-224.

4. See K. Kumar, "Multinationalization of Third World Public Sector Enterprises", in K. Kumar and M. McLeod (eds.), Multinationals From Developing Countries, (Lexington, M.A.: D.C. Heath, 1981) at 197-201.

5. See Monopolies and Restrictive Trade Practices Act, (1969), enacted by Parliament in Twentieth Year of the Republic of India being Act 54 of 1969.

6. See MRTP Act, (1969), Section 20 under Chapter III of the Act.

6a. Rs. 20 million, approx. U.S. $2.4 million.

6b. "Interconnected undertakings" means two or more undertakings which are interconnected with each other in any of the following manner, namely:
 (i) if one owns or controls the other,
 (ii) where the undertakings are owned by firms, if such firms have one or more common partners,
 (iii) where the undertaking are owned by bodies corporate -
 (a) if one merges the other, or
 (b) if one is subsidiary of the other, or
 (c) if they are under the same management in the meaning of Section 370 of the Companies Act, 1956, or

(d) if one exercises control over the other in any other manner.

(iv) where one undertaking is owned by a body corporate and the other is owned by a firm, if one or more partners of the firm -

(a) hold, directly or indirectly, not less than fifty per cent of the shares, whether preference or equity of the body corporate, or

(b) exercise control, directly or indirectly, whether as director or otherwise, over the body corporate,

(v) if one is owned by a body corporate and the other is owned by a firm having bodies corporate as its partners, if such bodies corporate are under the same management within the meaning of the said section 370,

(vi) if the undertakings are owned or controlled by the same person or group of persons,

(vii) if one is connected with the other either directly or through any number of undertakings which are inter-connected undertakings within the meaning of one or more of the foregoing sub-clauses.

7. See MRTP Act, (1969), Chapter III, Part A, "Expansion of Undertaking", Section 21, Subsection 2.

8. See MRTP Act, (1969), Chapter III, Part A, Section 21, Subsection 3.

9. MPTP Act, (1969), Chapter III, Part A, Section 22.

9a. By the Budget of April, 1985, the value of the assets of the Indian Companies has been increased, ie., previously it was Rs. 20 million or more - now this has been raised to Rs. 50 million, and thus 50 per cent of the big companies will be freed from MRTP control.

10. See S. Lall, "The Emergence of Third World Multinationals, Indian Joint Ventures Abroad", (1982) World Development, at 127-130.

11. See S. Lall, Developing Countries as Exporters of Technology: A First Look at the Indian Experience, (London, McMillan, 1982) at 60-65.

12. See Indian Investment Centre, Indian Joint Ventures Abroad: An Appraisal, (New Delhi, 1981) at 50-50.

13. Supra, note 12.

14. Supra, note 10.

15. See "India's Joint Venture Abroad", Business India (dated 26 April 1982) and Indian Institute of Foreign Trade (IIFT), (1977), at 69-84.

16. Supra, note 15, IIFT.

17. Ibid.

18. Ibid.

19. Ibid.

19a. Federation of Indian Chambers of Commerce and Industry (FICCI), Report of Workshop on Indian Joint Ventures, Turnkey, and Third Country Projects (New Delhi, The Federation, 1982) at 80, 90-94.

20. "Indian Companies as Foreign Investors: Patterns and Competitors", Business India (15 December 1978), at 399-400.

21. Ibid.

23. Balkrishna, "India Joint Ventures", (1976) Economic and Political Weekly, May 29, 1976, at 35-48.

24. D.R. Singh, "Capital Budgeting and Indian Investment in Foreign Countries", Management International Review (1977, Vol. 17, No. 1), at 101-110.

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26. Federation of Indian Chambers of Commerce and Industry (FICCI), Guidelines Governing Investment as modified on 28th September 1978.

27. Ibid.

28. Supra, note 25, Guidelines, rule 'f'.

28a. D. Nayyar, India's Exports and Export Policies in 1960s (Cambridge: Cambridge University Press, 1976) at 196, 366.

29. Supra, note 25, Guidelines, rule 'c'.

30. D. Nayyar, India's Export Policies in 1960s (Cambridge: Cambridge University Press, 1976) at 201-9. Also see

Jagdish, N. Bhagwati and Padma Desai, India: Planning for Industrialization (London: Oxford University Press, 1976) at 281-474.

31. See Economic Times (Bombay), dated 9 December 1977, at 1.

32. See Industrial Credit and Investment Corporation of India Lts (ICICI), Newsletter various issues, 1970-1978. Also see D. Encarnation, "Capital State Relations in India", in Indian State as Principal Financier (Duke University, 1980) at 91-99.

33. Supra, note 32, D. Encarnation.

34. Business Asia, dated 27 March 1981, p. 103.

35. Economic Times, 6 December 1977, p. 1.

36. FICCI - (1982) Workshop on Indian Investment Abroad, pp. 29, 31-34.

37. IIC - (1978) Report of Workshop on Joint Ventures and Investment.

38. Supra, note 12, IIC.

39. See D. Gupta & N. Sengupta, Government and Business in India, (New Delhi: Allied Book Agency, 1978), pp. 244-269.

40. See Indian Income Tax Act, 1961, 197 Kanga and Palkhivala (1976).

41. Supra, note 36.

42. Indian Ministry of Finance, (1981) Report of 18 December.

43. Indian Chamber of Commerce and Industry, Report, (1978) pp. 50-51.

V.2. The Korean Multinationals

1. See, K. Kumar and K.Y. Kim, "The Korean Manufacturing Multinationals" in '(1984) Journal of International Business Studies' Spring/Summer, at 45-59.

2. Ibid.

3. Ibid.

4. Ibid.

5. N. Hood, and S. Young, 'The Economics of Multinationals' Multinationals Enterprise (London, Longman, 1979) at .

6. K. Kumar and K.Y. Kim, "Multinationals firms from the republic of Korea: A study of overseas investments in manufacturing sector", (Honolulu: East West Centre, 1981) at 68-75).

7. Ibid.

8. Ibid.

9. S.H. Jo, "Overseas Direct Investment by South Korean Fiurms: Direction and Pattern" in Multinationals from Developing Countries, in K. Kumar et al., (Lexington, D.C. Heath, 1981) at .

10. H. Hedberg, "The New Challenge: South Korea", (Seoul Chongno Book Center, 1978) at 78.

11. L.P. Jones L.P. and I.L. Sakong, "Government business and Entreprenurship in Economic Development: The Korean Case", (Massachusetts, Harvard University, 1980) at 60-65.

12. Ibid.

13. S.H. Jo, "Overseas Direct Investment by South Korean Firms: Direction and Patter in Multinationals from Developing Countries", in Kumar et al., (Lexington Books, 1981) at 53-78.

14. Supra, note 1 at 58.

15. Y.-D. Euh and S.H. Min. "Foreign Direct Investment From Developing Countries: The Case of Korean Firms", in (1986) Developing Economics, 24(2), at 148-166.

16. L.C. Nehrt, "The Political Climate for Private Investment", (1972) 'Business Horizons', Vol. 15 No. 3 at p. 51.

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18. F.R. Root, "International Trades and Investment: Theory, Policy, Enterprise", (Cincinnati: South-Western Publishing Co., 1984), 5th ed., at 45-55.

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28. Ibid.

29. Ibid.

30. Y.-D. Euh and Sang H. Min, "Foreign Direct Investment from Developing Countries: The Case of Korean Firms", in (1986) Developing Economies, 24(2) June , at 165.

31. Ibid.

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33. *Supra*, note 26.

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35. *Ibid.*

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11. Ibid.

12. S. Lall, "The export of Capital from devleoping Countries", (Paper presented to the International Economics Study Group, 1980 September, mimeo) at 54.

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19. Ibid.

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14a. R. Aggarwal - Emerging Third World Multinationals: A Case Study of Foreign Operations of Singapore Firms in (1985) Contemporary South East Asia, Vol. 7, Number 3, at 193-207.

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26. P.E. Fong and R.V. Komaran, "Singapore Multinationals", in (1985) Columbia Journal of World Business (1985) at 35-45.

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28. Singapore Business - dated February 8, 1983 at B6.

29. Business Times (Singapore), dated May 4, 1984.

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32. Supra, note 26 at 38.

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V.5. Multinational Firms From Latin American Countries:

1. E. White, "The International Projection of Firms from Latin American Countries", in K. Kumar et al., Multinationals from Developing Countries, (Lexington M.A.: D.C. Heath, 1981) at 155.

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5. One of the largest business Concerns of Brazil, the Conglomerate Copersucar took over, in 1977, the U.S. Coffee Company Hills' Brothers. In the same year a group of Brazilian firms formed a joint venture with French firms to build a plant in the port of Havre to finish the manufacture of Brazilian exports (see (1977) Journal du Brazil, May 24.

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8. Ibid.

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11. Ibid.

12. Ibid. - For example, the figure for Latin American technology contracts in Venezuela was a percent of the total number of contracts and 8.6 percent of the total payments in 1978, in comparison with the negligible 0.8 percent of Latin American foreign Investments in Ecuador 5 percent of the value of technology contracts approved in 1977 was L.A. origin.

13a. Argentine Central Bank and the Registry of Foreign Investment at the Argentine Ministry for the Economy, 1981.

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CHAPTER VI

THE CONTRIBUTION AND IMPACT OF TW MNCS ON HOST AND HOME COUNTRIES

In this chapter an attempt will be made to assess the contributions of the TW MNCs in the overall development of the host and home countries.

Development is a multidimensional process. It implies more than the mere production of goods and services. It also involves laying the foundations of a self-generating growth that can satisfy the growing needs and aspirations of the different segments of a society. In order to assess the relative contribution of Third World firms, their overall impact on the economy, society and policy in the host and home countries also should be taken into consideration, in addition to their economic output.

VI.1.(i) <u>Impact on Host nations:</u> Some empirical evidence suggests that, as compared to multinationals from industrialized states, Third World MNCs are content with a lower equity participation in the FDI.[1] This preference is not necessarily the result of any altruistic concern or benevolent emphathy on their part, but is usually dictated by the exigencies of the situation. As noted earlier, the capital resources and technical and managerial capabilities of these firms are limited.[2] Thus, Third World firms often need partners in host countries who can contribute capital, other resources and, whenever necessary, serve as agents/liaisons brokers with local authorities.[3] Multinationals from industrialized states, on the ~~other~~ hand, have shown a marked preference in the past for total ownership or at least majority ownership.[4] This often arouses suspicion in the minds of government authorities and political elites in the host TW country.[5] Some of them feel that foreign investment contributes to their economic dependence by passing the ownership of critical national productive resources into foreign hands.[6] Thus, to the extent that Third World multinationals accept lower equity participation, they help lessen the degree of perceived political and economic dependence of host countries, and at least partly fulfil the political aspirations of developing host countries in their search for greater ownership of their productive resources.[7]

In addition, the operating technologies that are transferred by Third World multinationals are generally better suited to the conditions of developing states. Some of the technology can be characterized as "appropriate"[8] in as much as it is labor-intensive and can efficiently use locally available socio-inputs. This, by itself can be regarded as a significant contribution by Third World multinationals to the development aspirations of their host states. Moreover, the terms of technology transfer by Third World MNCs are often more favourable to host countries, than those dictated by firms from industrialized states firms. One study of Indian joint ventures indicated that there were no restrictive clauses in their agreements about technology, supply of spare parts or experts.[9]

More importantly, the very presence of Third World MNCs improves the bargaining strength of developing host states. The existence of these alternative sources of technologies and capital has "enabled host countries to secure better terms from the developed world". In a way, these ventures can be "said to represent a countervailing force without implying any idea of confrontation vis-à-vis developed countries".[10]

On the other hand, Third World MNCs can cause disadvantages as well as advantages to their hosts. Some concern has been expressed that Third World MNCs are not likely to provide a continuous flow of upgraded technoloies to their subsidiaries and joint ventures,[11] because they lack the research and development facilities of multinationals from industrialized states. However, certain large foreign enterprises from some developing states have been making significant progress toward the acquisition of new technologies.[12] Moreover, these enterprises are likely to continue to procure certain kinds of technologies from industrialized states to survive in the market. Therefore, a good proportion of Third World MNCs are soon likely to be in a position to upgrade their technologies in overseas ventures.[13]

Furthermore, there is a possibility that the process of employing nationals in management and technical positions might be slower in Third World multinational firms. Developing states insist that nationals of the host country should, as far as possible, occupy all technical and managerial positions, but most of these firms have yet to develop a sophisticated system for transferring management skills, and rely heavily on their expatriate staff to maintain control over their subsidiaries and joint ventures.[14] Thus, developing countries might be at a disadvantage in hosting Third World investments. This situation is likely to change in the future, however, as these firms accumulate overseas experience, as competition increases, and as host countries begin to exert greater pressure on them.

Closely related to this issue is the growth of local entrepreneurship in developing host countries. Experience shows that local businessmen assume entrepreneurial roles in those industries that do not require sophisticated operating technologies or high technical and managerial skills in the early stages of development.[15] They thus go to the industries that have mature technologies and an effective demand in their country. Even in these areas, however, they need protection from foreign firms.[16] Problems arise because the considerable investment made by Third World firms is precisely in those areas in which local businessmen could assume entrepreneurial roles, given the necessary protection and assistance by their government. For example, many firms have been active in textile, garment, shoemaking, utensil, sugar, soap, cement, and similar industries; therefore, there is a real possibility that Third World investments in such industries might discourage the budding entrepreneurs who find themselves unable to compete with foreign firms.[17]

Many of the general effects of Third World multinationals on the development process are likely to be similar to those of multinationals from industrialized nations. That a firm comes from a less developed country should not make much difference to its effects on the economy or the society. Thus, all the advantages and disadvantages associated with direct foreign investment generally accrue to developing host countries.[18]

VI.1.(ii) Impact on Home Nations: One principal advantage desired by some home countries is increased foreign exchange.[19] The increase of foreign exchange may sound paradoxical, since direct investment by definition implies the movement of capital from home to host countries. However, in reality the situation is far from simple. The experience of American and European firms indicates that their actual investments are often much lower than their book values suggest and they are in a position to transfer off considerable amounts in the form of profits, fees, and prices for raw materials.[20] In the case of developing states, several other considerations make it likely that the home countries get a reasonable foreign exchange return on these investments.[21] First, the equity shares of these companies are either wholly or partly subscribed through the supply of machinery, equipment, and other services. Home governments generally encourage their entrepreneurs to subscribe their equity shares in kind rather than cash.[22] It is reasonable to assume that without overseas direct investments, they would not have been able to sell their machinery and services. Second, as suggested earlier, some firms have established overseas subsidiaries or joint ventures only when they perceived a threat to their markets in the host country. Thus, foreign direct investment represents an attempt to protect exports as much as possible. Third, many firms from developing countries have invested in the Third World in order to export to industrialized states (e.g. Hong Kong textile investments in the Philippines to export to the United States or in Mauritius to meet the European demand). Finally, as mentioned earlier, these firms have even undertaken investments in industrilaized states to build up an infrastructure that can facilitate the export of goods from home countries.[23]

The foreign earnings of most of the home countries are very encouraging. The majority of South Korean firms that have established overseas manufacturing operations expect a

15% or higher rate of return on their investments which they hope to send back to Korea.[24] Taiwanese and Hong Kong firms have also been making reasonable profits,[25] although the percentage of these profits that are reinvested in host countries rather than returned home is not known.[26] Foreign exchange earnings and other incidental advantages for Indian firms are quite encouraging too. Up to 1980 Indian joint ventures spurred an initial export of capital equipment worth Rs. 256 million which, because it was capitalized, had no direct impact on balance of payments.[27] During the period of 1978-80, foreign exchange earnings through dividend transfers[28] and other means of repatriations (fee for technical know-how, engineering services, management, consultancy, etc.) have also gone up considerably so that, on a flow basis, joint ventures in the years 1978-80 were yielding foreign exchange to India averaging as much as twelve times the initial capitalized value of exported machinery and equipment.[29] On a cumulative basis, for the period ending in March 1981 the balance of payments effects of Indian FDI resulted in a ratio of 1:5.[30] It is somewhat higher in the case of new joint ventures still in the implementation stages, indicating that the total foreign exchange earnings per unit of investment are likely to increase when these joint ventures also start remitting dividends.[31]

Another objective of foreign investment of TW countries is to gain access to natural resources. It is perhaps too early to evaluate their efforts, but at this point the future of such endeavours is not very clear. To what extent host nations will permit control over their natural resources by Third World firms remains questionable.[32]

There are other benefits to the home country as well. The impetus that direct foreign investment can give to the economy of the home country cannot be totally ignored. In some cases FDI helps to utilize idle industrial capacity. Indian efforts at foreign investment started in the wake of sagging domestic demand for capital goods.[33] In other cases, a country can gain access to new technologies and skills.[34] Some states have also reaped some political benefits from their foreign investments. For example, Taiwanese national authorities and entrepreneurs see their foreigndirect investment as one way of strengthening their political and economic ties with other countries. Several Korean firms claim that their investment led to the establishment of diplomatic relations or strengthening of ties between Korea and host countries.[35]

The main cost to the home country is the migration of its scarce capital, at least during the initial stages. This can be a serious consideration of developing states and explains the general lack of enthusiasm of many Third World countries for the multinationalization of their firms. The Indian government, for example, had been very reluctant in the past to permit overseas direct investment by Indian firms, as it feared that it would be a drain on the limited capital resources of the country. Overall, Third World direct foreign investments is by no means an unmixed blessing for home and host governments. Its developmental effects are bound to differ across countries and industries.[36]

VI.2. Government Policies

VI.2.(i) Host Government's Policies: Few host governments have definite policies either to discourage or to encourage foreign investment from other developing countries. Mauritius has courted Hong Kong firms with access to export markets, for example, but the only clear differentiation in treatment between developing country and other investors that is found in Egypt. Egypt distinguishes between foreign and Arab investors allowing the latter to invest in certain industries closed to other foreign investors. In spite of official policies, to the contrary, in practice, many developing countries discriminate against investors from neighbouring lands.[37]

In a number of countries, the discrimination is a result of ethnic bias. In some Southeast Asian countries, where resident Chinese minorities are only tolerated, Chinese investors from Taiwan and Hong Kong are not the preferred choice of foreign-investment authorities. Similarly, there may be feeling against Indian investors in countries that have unpopular Indian minorities.[38]

In many countries, there is bias against investors from developing countries because of the behavior of bureaucrats. The civil servant who fears that he must justify his decision in future is more likely to prefer a well-known firm from an industrialized country to an unknown country from another poor country.[39]

Other aspects of government policy serve to discourage investment from developing countries. Perhaps primary among these is the long approval process required by some host countries. The large investor is usually better equipped to spend the management time required to work a proposal through a costly approval process than is the small investor.[40] Moreover, the developing-country investor's advantage in small scale, labor-intensive technologies is eroded by the many policies that favor large scale, capital intensive manufacture in the Third World. These include tax incentives based on size of investment, financial institutions that prefer to lend against fixed assets, restrictions on imports of second-hand equipment, prices of labour and machinery tilted against the use of labour and labour laws that turn labour into fixed cost.[41]

But this said attitude is changing amongst the governments of Third World countries. It has been remarked, that Third World multinationals are getting a considerably warmer welcome from host country governments than is accorded investors from the developed countries.[42] This greater cordiality presumably lays the groundwork for a congenial and productive working relationship between TW MNC affiliates and their respective host governments, as opposed to the contentious relationship that often exists between First World MNCs and the government of the countries in which they are operating.[43]

The expectation that there will be an easier rapport between TW MNCs and host governments seems to be based, to a large extent, upon the notion of economic and cultural kinship assumed to exist between parties who share a common Third World background.[illegible] This expectation may also be linked, however, to some of the organizational features of the TW MNCs (that were noted previously) such as their penchant for involvement with local investors. The local market orientation of their affiliates is thought to be conducive to favourable relationships with host governments: they provide for beneficial participation by local nationals in the activities of the TW MNC affiliates while lessening the aura of foreign control that surrounds the more tightly integrated and outward looking affiliates of First World MNCs.[illegible]

Further support for the proposition that host governments will be favorably disposed toward the TWMNCs comes from a version of the appropriate-technology concept. The argument here is that the technology transferred by the TWMNCs may be less sophisticated than that which multinationals from the developed countries would introduce and thus is more likely to fit the actual circumstances and needs of the recipient economy and to be provided as a substantially lower cost. The main advantages offered to the host country comes from the greater employment opportunities afforded by the labour-intensive techniques of the TW MNC affiliates and the reduction or elimination of the foreign exchange burden associated with continuing royalty payments for more advanced technology.[40]

VI.2.(ii) <u>Home Government Policies</u>

Attitudes of home government have been almost as diverse as those of host governments. Some countries, such as Mexico and Hong Kong, require no approval for their firms to invest abroad, while others require potential investors to obtain permits, and some lay down fairly explicit rules. The Indian government has instituted a formal approval process for outgoing investment.[41] Each project is approved separately by the government of India for Indian MNCs. As a host, India has been rather critical of the role of multinationals from developed countries in her own economic developments, and, introduced harsh restrictions on their operations through Foreign Exchange Regulation Act (FERA) in 1973 leading to withdrawal of firms such as Coca-Cola and IBM.[42] Each project is approved separately by the Indian government. In the final analysis, the focus of most home governments appears to be on any exports that an outward investment might generate from the home country or access to raw materials needed at home. Taiwanese regulations, for example, state that outward investments must meet one of the following requirements:[49]

- promote the sales of domestic products;
- make available raw materials required by domestic industries;
- expand the market for the products of the investor whose domestic plant has excess capacity;
- be conducive to the export of technical know-how that may increase foreign exchange earnings; or
- promote international economic co-operation.

Although Latin American governments vary in the scrutiny they give proposals, most South American countries require approval of investment through their exchange control procedures.[50] Peru not only requires approval of outgoing investments through the same institution that is responsible for incoming investments, but requires permits for the export of used machinery from the country.[51] Brazil, like many other countries, seems to allow only projects that support exports or that hold the promise of providing raw materials.[52]

Once a home country government grants approval, it may even grant incentives to their investors. Typical incentives include exemption from home taxes and the provision of guarantees for losses associated with the export of machinery manufactured at home.[53]

The economic case for foreign manufacturing investment from the home country's point of view is a mixed one. The biggest costs, according to the governments, are the foreign exchange outflows at the beginning of an investment. Some countries also fear that overseas subsidiaries open potential leaks in the exchange control systems: with a base outside the country, a firm can find various ways of evading exchange controls at home. Although investment initially means, in most cases, an outflow of foreign exchange from the home country, overseas activities should eventually earn exchange in the form of dividends and fees. They may generate exports in the form of materials and complementary products that would not otherwise have been sold.[54]

Foreign investment requires the export of managerial and technical personnel as well as foreign exchange. Such personnel may present an opportunity cost at home. On the other hand, some of the interviews have supported the claim that the opportunity cost is low in family-held firms. Managers sent overseas may be underemployed at home, and this foreign experience may provide them with general management training that has a long-run benefit for the home country. The export of machinery is usually of little worry to home governments; when the investment consists of locally made machinery or second-hand equipment, that machinery has, in many cases, little opportunity cost for the home country. There may be no domestic use for it, and given the poorly developed markets for new machinery from developing countries and for used equipment of all types, it might not be exported in the absence of investment.[55]

Home governments fear that foreign investment will displace exports of final goods, but reasons of motivations for investment suggest that investment is undertaken primarily when exports are threatened. Many of the exports would probably disappear regardless of whether the investment is undertaken.[56]

For home countries, the political issues concerning foreign investment are complex. Some countries, such as India, are likely to be concerned that it will unduly strengthen the largest enterprises in the country, those that matter in antitrust policy. Relations with neighbouring countries can be improved or weakened by foreign investment. When the home country is viewed as a dominant political power, or its nationals have become successful immigrants abroad, the effects might well be negative. On the other hand, investments might be seen by neighbours as useful ways to loosen their dependence on more powerful countries of the North. The results are likely to be quite different from country to country.[57]

Given the importance of constraints of foreign exchange and skilled managers to developing countries, most governments will probably continue to screen proposed foreign investments, approving only those that promise quick payoffs in the form of exports. There are strong hints, however, that many firms will find a way to invest abroad with or without approval at home.[58] Lately, Third World governments are frequently encouraging and directly supporting the foreign direct investment ventures of the TW MNCs based in their countries. This is because the governments of TW countries are recognizing that direct investment is the only feasible way for their MNCs to secure profitable foreign markets. Also, the lure for national prestige that might be fulfilled through the worldwide expansion of industrial empires based in and identified with particular countries.[59]

While it is important to keep in mind the tentative and conjectural nature of the views of TW MNC host government relations that have been examined above, they nevertheless form an intriguing image of expansionist business enterprises joined in an informal triple alliance with their own governments and the governments of the countries in which their foreign affiliates are located. Such an unprecedented alliance certainly could overcome many of the political obstacles and problems that multinational corporations historically have encountered in their efforts to conduct global operations.

VI.2.(iii) TW MNCs and International Institutions

Although governments of developing countries have mixed attitudes towards foreign investments by their firms, certain international organizations unequivocally support "developing-country joint ventures".[60] This support derives from several characteristics of Third World multinationals. The International Labour Office, for instance, is especially interested in the possibilities of job creation that are associated with the kinds of technology transferred by the firms.[61] The U.N. organizations are most interested in the role that such firms can play in developing self-reliance among the countries of the South and are very concerned with what they see as the dependency of the developing countries on the rich North for technology required for development. As an example of South-South Cooperation, Third World multinationals provide a viable model for other cooperative efforts that hold out promise of economic and political benefits for the developing nations.[62]

Regional organizations see contributions that developing country firms can make to economic and political integration within their regions and more obvious benefits from appropriate technology and appropriate products. In the hope of encouraging investments within their regions, some groups have taken concrete steps. The Andean group has adopted special provisions to encourage the development of regional enterprises.[63] SELA, the Latin American Economic System founded in 1975, and the Central American Common Market have both indicated similar interests in regional firms. INTAL (Institute para la Integracio de America Latina) has long promoted the idea of "joint enterprises" in Latin America because they are thought to encourage integration among the area's economies.[64]

In their deliberations, policy makers in some development organizations, and in the regional organizations, have conceived of a rather special kind of project for regional investment. This idealized concept is of a newly created enterprise that is jointly owned by nationals of different countries but not the "subsidiary" of any one parent.[65] Consistent with this concept, the model suggested by some international organizations does not place emphasis on the flow of technology from an existing enterprise to a new one, its subsidiary.[66]

Most of these joint projects are the creation of two or more governments, and are for infrastructure, particularly power generation and navigation projects, such as those undertaken by Paraguay and Argentina, and Paraguay and Brazil. Such projects have been established in Latin America,[67] as well as in ASEAN countries, and in Africa.

The Merchant Fleet Grancolombiana S.A. illustrates one kind of joint project desired by the regional organizations. Started in 1946 for shipping, it involved the National Federation of Colombian Coffee Growers, the National Development Bank of Ecuador, the National Sailing Company of Columbia, and the Agriculture and Cattle Bank of Venezuela, all state-owned entities.[68] The resulting Colombia-based merchant fleet was to provide a regional fleet for primary exports. The history has been checkered, with Venezuela withdrawing in 1953, profits have been reported for only a few years, and only a few regional projects have been for manufacturing. In such cases, the technology has generally come from a firm based in an industrialized country.[69]

Monomeros, another example of this type of venture is an enterprise established in Colombia by Institute Vénezolano de Petroguimica (IVP), a Venezuelan state-owned enterprise; Ecopetrol, a Colombian state firm; IFI, a Colombian development finance institution; and DSM-Stamicarbon N.V., a Colombian subsidiary of a Dutch state enterprise.[70] The venture was started to use IVP's ammonia, Dutch technology, and Colombian labour to produce fertilizer and an essential ingredient in the manufacture of nylon.[71]

In Africa, there have been proposals for similar multinationals ventures without a clear parent-subsidiary relationship. For example, Nigeria and Benin have discussed a joint cement project and plans for acquiring technology from Europe. The original plans for Ciments de de'l Afrique de'l Ouest (CIMAO), another proposed venture involving primarily governments, was to include a cement plant and clinker plant in Togo. In another study undertaken through

UNCTAD/UNDP, 25 possible projects have been identified that could be established as joined ventures by TW countries. These carefully identified projects can give a tremendous boost to agricultural production and lessen the dependence of developing states on industrialized countries for their supply of fertilizers.[72]

A second study that focussed on the rubber industry has also suggested that joint ventures among natural rubber-producing countries, both at private and public sector levels, would pave the way for more efficient utilization of rubber resources and growth of rubber related industries.[73] Still another investigation also stressed the possible contribution of Third World multinationals to the paper industry.[74] In almost every sector of economy (extractive, agricultural, manufacturing, transport and service), there remain unlimited opportunities for Third World multinationals.

International organizations, nevertheless, probably have a significant role to play in the development of enterprises of the type that are more common. In several cases, they have provided the initial information that led to investment. The International Finance Corporation brought investment opportunities to the attention of some of the firms mentioned and has put up its money to help some projects.[75] The reports and political pressures from international organizations can encourage governments to remove some of the barriers to the establishment of foreign subsidiaries by firms from developing countries; they can also assist new investors in learning from the experience of firms that have already invested abroad. INTAL, for example, has had lawyers examine the legal problems encountered by Latin American firms that invest in other countries in the region and has recommended changes in national legislation as a result. Further, it has provided details to prospective investors about the ways existing investors have structured their projects to minimise problems.[76]

FOOTNOTES - CHAPTER VI

1. See, D.J. Lecraw, "Direct Investment by Firms from Less Developed Countries", (1977) Oxford Economic Papers, 29(3) at 442-457; also K. Kumar and K.Y. Kim, Multinationals Firms from the Republic of Korea: A Study of Overseas Investments in Manufacturing Sector, (Honolulu: East-West Centre (mimeo), (1981) at 79-85; and also see K. Kumar and C. Schive, The Chinese Multinationals, (Honolulu East-West Center, 1981) at 68-75.

2. See, P. O'Brien, "The New Multinationals: Developing Country Firms in International Markets", (1980) Futures at 303-16.

3. See, M.H. Lim, "Survey of Activities of Transnational Corporations from Asian Developing Countries", Report submitted to ESACP/UNCTC Joint Unit on Transnational Corporations, (Bangkok, 1984) at 44-49.

4. See R. Vernon, "Sovereignty at Bay: The Multinational Spread of U.S. Enterprises, (New York, 1971) at 80. Also, Richard E. Caves, "Multinational Enterprise and Economic Analysis", (Cambridge University Press, 1982) at 160-177.

5. See S. Lall, "Multinationals from India", in The New Multinationals: The Spread of Third World Enterprises by S. Lall et al. (Wiley & Sons, 1983) at 21-87.

6. Ibid.

7. See S. Lall, "Developing Countries in the International Economy", (London, McMillan, 1981) at 60-86.

8. See S. Lall, "Developing Country as Exporters of Technology, A First Look at the Indian Experience, (London: McMillan, 1982) at 30-55.

9. See IIFT (Indian Institute of Foreign Trade) India's Joint Ventures Abroad, (Federation, New Delhi, 1971) at 80-81.

10. See R.G. Agarwal, Joint Ventures Among Developing Asian Countries, Geneva: United Nations Conference on Trade and Development (UNCTAD) 1975, at U.N. Doc. No. TD/B/C.19/R.7.

11. L.T. Wells, "The Internationalization of Firms from the Developing Countries, in T. Agmon and C.P. Kindleberger

(eds.) Multinationals from Small Countries, Cambridge M.A. MIT Press, 1977 at 36-50.

12. Investigators undertaken by UNCTAD has shown that most of the South Korean and Hong Kong firms, which had made overseas investments, has either developed or were trying to develop new technologies themselves or were seeking to acquire new machines and equipment from other sources.

13. See Supra note 8; and also see, D.J.C. Forsyth, N. McBain, and R.F. Solomon, "Technical Rigidity and Appropriate Technology in Less Development Countries", (1980) World Development, Vol. 8 at 371-9.

14. Supra note 1.

15. See K. Kumar, The Social and Cultural Impacts of Transnational Enterprises, Sydney Research Project on Transnational Corporations, (University of Sydney, 1981) at 27-36.

16. Ibid.

17. See L.T. Wells, Jr., "The Strength of LDC Investors" in (1980) Economic Impact, May, at 25-30.

18. Ibid.

19. See S.H. Jo, "Overseas Direct Investment by South Korean Firms: Direction and Pattern", in K. Kumar and M. McLeod (eds.) Multinationals from Developing Countries, (Lexington, MA: D.C. Heath, 1981) at 53-77.

20. See P.B. Musgrave, "International Tax Differentials for Multinational Corporations: Equity and Efficiency Considerations", in The Impact of Multinationals on Development and on International Relation, (Technical papers: Taxation, 1974) at 51-60.

21. See Indian Investment Centre, Indian Joint Ventures: An Appraisal, (New Delhi, 1981) at 19-22.

22. See Indian Investment Centre, Joint Ventures Abroad: Status and Guidelines, (New Delhi, 1979) at 20-25.

23. See Y.-D. Euh & Sang H. Min, "Foreign Direct Investment from Developing Coutries: The Case of Korean Firms", in (1986) The Developing Economies 26(2), at 148-168.

24. See K. Kumar & K.Y. Kim, "The Korean Manufacturing Multinationals", in (1984) Journal of International Business Studies, Spring/Summer, at 45-61.

25. K. Kumar and C. Schive, "The Chinese Multinationals", (Honolulu East-West Center, 1981); E.K.Y. Chen, "Hong Kong Multinationals in Asia: Characteristics and Objectives", in K. Kumar et al., Multinationals from Developing Countries, (Lexington MA: D.C. Heath, 1981), at 79-100.

26. Ibid.

27. S. Lall, "Indian Multinationals", in S. Lall et al., The New Multinationals: The Spread of Third World Enterprises", (Wiley & Sons, 1983) at 21-87.

28. Indian Investment Centre, (1983) Indian Joint Ventures Abroad, An Appraisal, (New Delhi, (1983) at 20-30.

29. J.P. Agarwal, Pros and Cons of Third World Multinationals: A Case Study of India, (Tübingen, Mohr, 1985) at 42-45.

30. Ibid.

31. Ibid. Also see, Federation of Indian Chambers of Commerce and Industry (FICCI), Workship on Indian Joint Ventures, Abroad and Project Exports (Report, New Delhi (1982).

32. L.T. Wells, Jr., and V'Ella Warren, "Developing Country Investors in Indonesia", (1979) Bulletin of Indonesian Economic Studies (March) at 70-84.

33 C.K. Prahalad, The Emerging Multinationals: Indian Enterprise in the Asian Region, (Madras, Indian Raju Consultants Ltd. Enterprise, 1980) at 20-30 and also see, M. Raju, Internationalization of Indian Business, (Bombay, Forum of Free Enterprise, 1910) at 50-60.

34. S.H. Jo, "Overseas Direct Investment by South Korean Firms: Direction and Pattern", in K. Kumar and M. McLeod (eds.) Multinationals from Developing Countries, (Lexington, MA: D.C. Heath, 1981) at 53-77.

35. K. Kumar, "The Korean Manufacturing Multinationals", in (1984) Journal of International Business Studies, Spring/Summer, at 45-60.

36. L.T. Wells, Jr., Multinationals from Latin American and Asian Developing Countries: How they Differ", Harvard Busienss eview (mimeo, 1980) at 50-65.

37. Supra note 17.

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39. Ibid.

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41. L.T. Wells, Jr., "Foreign Investors from the Third World", in K. Kumar et al., Multinationals from Developing Countries, (Lexington, D.C. Heath, 1981) at 20-34.

42. R. Agarwal and J.K. Weekly, "Foreign Operations of Third World Multinationals: A Literature Review and Analysis of Indian Companies", (1982) Journal of Developing Areas, Vol. 17, at 13-29.

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50. E. White, "The International Projection of Firms from Latin American Countries", in K. Kumar et al., Multinationals from Developing Countries, (Lexington, D.C. Heath, 1981) at 176.

51. L.T. Wells, Jr., "Third World Multinationals", M.I.T. Press, 1983, at 145.

52. A.V. Villela, "Multinationals from Brazil" in S. Lall et al., The New Multinationals: The Spread of Third World Enterprise, (Wiley & Sons, 1983) at 221-237.

53. R. Richardson, "South Korea Triest to Buy a Guarantee", in (1979) Far Eastern Economic Review, August 31, at 78 for Korea's incentives. See also, IIC (Indian Investment Centre), Joint Ventures Abroad: Report (New Delhi, 1976).

54. Supra note 16, at p. 146.

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56. Supra note 51, at p. 146.

57. Ibid.

58. J.P. Agarwal, "Pros and Cons of Third World Multinationals: A Case Study of India", J. Mohr (Paul Siebeck) (Tubingen, 1985) at 30.

59. S. Lall, "Developing Countries and the Emerging International Technological Order", (1979) Journal of International Affairs 33 (Spring/Summer) at 77-88.

60. U.N. Doc. No. UNCTAD/ECDC/TA/14, at 24.

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64. R.D. Bond, "Regionalism in Latin America: Prospects for the Latin American Economic System (SELA)", in (1978) International Organization, (Spring) at 402-423.

65. Ibid.

66. Ibid.

67. Ibid.

68. Ibid.

69. Supra note 60, at p. 171.

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71. P.N.C. Okigbo, "Joint Ventures Among African Countries", in UNCTADTD/B/AC.19/R.3., Oct. 2, 1975, Annex III.

72. S.K. Mukerjee, "The Fertilizer Industry: Present Situation and Prospects for Further Development Through Trade Expansion and Economic Co-operation Among Developing Countries": UNCTAD/UNDP (New York, 1979).

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74. P. Glenshaw, "The Paper Industry: Present Situation and Prospects for Further Development Through Trade Expansion and Economic Co-operation Among Developing Countries": UNCTAD/UNDP (New York, 1979).

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CHAPTER VII

THIRD WORD MULTINATIONALS AS INSTRUMENT OF ECONOMIC CO-OPERATION AND SOUTH-SOUTH TRADE

In the past thirty years, parallel to the evolution of the North-South dialogue, a deliberate process has emerged to strengthen economic relations among developing countries. It represented stages of a single historical process, consisting of a movement toward subregional and regional economic integration among developing countries and later toward the translation of political aspirations for interregional co-operation into concrete economic action programmes. Today, economic cooperation among developing countries (ECDC), at subregional, regional and also at interregional and global levels, constitutes a cornerstone in development strategies.[1] Recognition and support have been received within the framework of the United Nations, the Group of 77, and the Non-Aligned Movement. Three notable global programmes for the implementation of measures of ECDC have resulted: The Mexico City Programme (1976), the Arusha Plan (1979) and the Caracas Programme of Action (1981).[2]

The impact of the world economic crisis on the development process of the South and the severe balance of payment problems faced by developing countries have in more recent years, posed new obstacles to the efforts of cooperation and integration among developing countries. The role of South-

South cooperation in any strategy oriented towards the long-run revival and strengthening of the international economy remains, however, undisputed; economic cooperation and integration among developing countries appear as fundamental tools for the development process of the South. South-South cooperation cannot be limited to trade liberalization measures.[3] It must also include more direct measures to stimulate, through deliberate means of economic cooperation, both production in developing countries and South-South trade. It must also include joint efforts in regional, industrial and agricultural production, the promotion of joint investment and greater flows of commercial loans and equity capital between the countries of the South, a certain degree of monetary cooperation, South-South transfer of technology on equitable terms and the laying down of appropriate trade and physical infrastructures.[4]

This chapter assesses the role and potential of Third World multinationals and joint ventures in stimulating the South-South cooperation and trade among the Third World countries. However, before discussing South-South trade, a brief account should be given of the idea of "collective self-reliance"[5] among Third World countries.

From the beginning, "self-reliance" through a bargaining process has been the 'raison d'être' of the Group of 77. In fact the desire to strengthen the "joint negotiation capacity" of the TW countries vis-à-vis the developed countries of both East and West was the motivating force behind the formation of the Group of 77. However, over the years, the objective of self-reliance through bargaining, in the North-South context, has been supplemented by the concept of collective self-reliance through economic cooperation among the developing countries themselves. The various conferences held and the numerous permanent working groups set up within the Group of 77 reflect this change. The full integration of this new concept approach was initiated by the Arusha Programme for Collective Self-Reliance and Framework for Negotiations (1979).[6]

The programme of South-South cooperation was further elaborated at the Caracas Conference held in April 1981.[7] Its report identified seven sectors. While no specific priority was assigned to any of these sectors, parts of the programme dealing with such issues as finance, transfer of technology and trade were considerably more detailed and specific than those dealing with other sectors such as food and agriculture, energy, raw materials and industrialization.[8]

The Arusha Programme, supplemented by the one drawn up at Caracas had two objectives - to bring about changes in the existing international framework by promoting economic cooperation (ECDC) and technical cooperation among developing countries (TCDC), and at the same time to restructure the world economy. It recognized that although South-South cooperation had great potential, it could not be a substitute for North-South negotiations. In other words although the regional approach among the TW countries held great promise, it was no alternative for North-South negotiations. It was just a stepping stone to peaceful and equitable sharing in global economic management.[9]

As regards the objective of restructuring the world economy, no progress was made. There is no indication that North-South negotiations will be renewed in the foreseeable future. UNCTAD VI (Belgrade, June 1983) also failed to provide any push in that direction.[10]

As regards the other objective, namely that of promoting South-South cooperation, it was viewed not only as a means of reshaping the division of labour between nations, but also as a part of the industrialization strategy.[11]

Now, coming to the subject of South-South trade, it is of course true that an expansion of trade would reduce the age-old dependence of countries from the South upon the rich countries of the North, and improve their bargaining power.[12] It would also however, help overcome the size limitations of their domestic markets, help exploit complementary resources through regional specialization, reduce exposure to risks or cyclical fluctuations and, in the long run, foster indigenous technological development. There can be little doubt that all this lies within the realm of possibility. However, any plan to extend South-South cooperation is bound to come up against, in practice, enormous difficulties. Hence, at the regional and interregional level, the promotion of trade should be attempted after the necessary preparations have been made. An attempt should be made at seeking a redeployment of industries so as to make them complementary. The necessary infrastructure, including transportation and communication links, needs to be established.[13]

Industrialization is a major goal of development planning in most developing countries, although the emphasis, of course, varies from country to country. In the early stages, any strategy of industrialization generates demands for raw materials, intermediate inputs, and capital goods.[14] While most raw materials can be procured in the developing world, (a condition which should be conclusive to South-South trade), the ability of the South to meet its own demands for immediate and capital goods is limited. It is not as if production abilities or capacities are non-existent in the South. Many developing countries manufacture intermediate or capital goods, while some countries, such as Argentina, Brazil and India, even export them.[15] It is important, however, to build up a proper infrastructure in order to promote the possibilities of South-South trade. As for the Latin Americans, who have learned this principle the hard way, it is cheaper to 'ship' their goods to ports in North America and Western Europe than to their own ports or those of neighbouring countries. Efforts are being made by various

UN agencies, however, to promote programmes and projects for the joint development of economic activities, including technology transfer, and to stimulate mutual trade.[16]

Multinational corporations and joint ventures of TW countries are seen as one of the many important instruments for restructuring international economic relations and for improving the position of the TW countries in world trade, industry and transport.[17]

Through TW MNCs, the Third World countries would achieve the following important goals:

a) exploitation of their economic complementarity potential and elimination of unnecessary middlemen;
b) development of their economic interlinkages and of pooling resources of developing countries;
c) taking advantage of economies of scale;
d) improvement of their bargaining power vis-à-vis the developed countries or translation enterprises (TNES);
e) establishment of mutual economic cooperation on the principles of the new international economic order.

In light of these goals TW MNCs can be described as follows:

a) institutional vehicles for the achievement of the economic and social goals of the individual countries and regions, or the developing countries in general by combining and pooling their resources;

b) vehicles for promoting ECDC by creating impulses for economic cooperation among developing countries by creating opportunities for forward and backward linkages with already established ventures.[18]

Organizations such as ASEAN, OAPEC and the Andean Group have amassed important experience in the field while a number of other organizations (including SADCC, CARICOM, SELA) have recently completed the elaborations of legal and financial mechanisms for the promotion of MNCs and joint ventures. Outside the framework of regional and subregional cooperation - and more specifically atthe bilateral level - these enterprises are emerging as important vehicles in the trade and economic relations among third world countries. This is particularly true for the newly industrialized TW countries and some surplus-capital oil-exporting countries. Many of these enterprises involve interregional participation, are owned by the private sector, and are engaged in food and agricultural sectors as well as industry.[19]

Most TW country investors have limited financial resources. While capital goods producers in developed countries generally have at their disposal mechanisms for financing the purchase of such goods, and for servicing and maintaining them, especially in the foreign markets, such mechanisms rarely exist in developing countries. This does not imply that such instruments cannot be created. Therefore, the TW countries, by pooling their limited resources through the establishment of MNCs, could engage in activities which would not be economically feasible for each individual partner or country.[20] Thus, these TW MNCs and their joint ventures would also seem to be ideal means of financing, maintaining and servicing such industries and they would also be able to share their managerial capabilities and skilled labour, all of which are unlikely to be insufficient supply to any individual national producer.[21] Only by drawing upon skilled labour, management and expertise from those TW countries capable of providing them, and cheap labour from other TW countries, and financing from petroleum exporting countries or countries exporting other primary products, can all the necessary ingredients for the support for capital goods industries in the South be developed.[22]

Then, consideration must be given to the extremely important problem of achieving specialization, long production runs and adherence to an agreement affording domestic enterprise status to multinational joint ventures. Specialization in production requires coordination among different producers, and what is more difficult for the TW countries as a whole, the coordination among the producers coming from many different countries.[23] Moreover, if producers are to be small, as the case tends to be for successful capital goods production in the South, the problem of coordination is multiplied. Only large transnational corporations tend to be capable of organizing small developing country producers in this way - and even in such cases, experience has been limited to a relatively few countries which are particularly suitable for successful subcontracting, and to industries which are simple enough and have sufficiently well known technologies and markets to make subcontracting viable.[24]

Licensing agreements would be an alternative mechanisms for allowing for technological flows between regions of the TW countries. However, the lack of an effective patent system in the TW countries, the shortage of information among TW producers, and the greater importance of "learning by doing" among management and skilled workers in capital goods industries all tend to limit the usefulness of licensing agreements, transferring technology from one country to another, and to underline the advantages of multinational joint ventures.[25] Arms' length contracts between producers in different countries and especially between different TW countries in which economic and political conditions are much more volatile than in developed countries are exceedingly difficult to establish, monitor and enforce.[26] By bringing the various producers, partners and agents together within a single, profit-seeking enterprise in which all agents share the benefits arising from the fulfillment of their individual responsibilities, the cost of transactions, information and enforcement can be reduced to manageable proportions. Otherwise, it would be very difficult to see how producers and investors of TW countries would be able to take advantage of the benefits of specialization, small scale full vitalization of resources, and resource complementarity that seem essential to a viable capital goods industry.[27] Moreover, only if the equity capital of such multinational joint ventures of TW countries is widely subscribed to, and their activities are widely dispersed among TW countries, will their existence be regarded as equitable. Only then will these countries be willing to treat them as domestic enterprises within a de facto custom union, without going through the difficult process of formally establishing such a union.[28]

Joint ventures are also an instrument for inducing other forms of cooperation among TW countries. They introduce elements which, in the long run, create new needs and further advance mutual cooperation through forward and backward linkages with other economies. Thus, TW countries' joint ventures can actually provide a nucleus, stimulating long-term production links, and helping the economies of TW countries to increase their resistance to short-term market fluctuations, political differences and other destabilizing factors which have in the past often led to the failure of the TW countries' efforts towards integration.[29]

Trade flows originating from joint ventures should be more stable and relatively less exposed to strains than traditional trade. Therefore, a special preferential regime for such trade seems necessary.[30]

TW MNCs in marketing[30] tend to have a greater potential than MNCs in production, due to the fact that, relatively speaking, they bring results much more quickly.[31] It is much easier to achieve the benefits of marketing MNCs and to distribute the costs and benefits equitably among the partners than it is in the case of MNCs in production enterprises.[32] Marketing MNCs could be estalished on a product-by-product basis or on a sub-regional basis combining related products (conglomerates). Traditional natural resources could be selected as priority sectors for the establishment of MNCs in order to obtain more profit, but in view of longer-term development needs, the manufacturing sector deserves priority. Gaining positions in the international market for manufactured products is difficult is only small quantities are manufactured since this cannot justify effective international promotion activities.[33]. Nevertheless, the joint ventures in marketing must be gradually supplemented by linkages with transport and related activities and in the last instance, also with production in order to maximize its development contribution. Technological cooperation in developing countries (TCDC) could therefore initially undertake the elaboration of preinvestment, pro-feasibility studies on joint ventures in marketing of the selected product groups and to envisage expansion into trade-related activities.[34] In respect to short-term adaptations, production MNCs are much less flexible since they call for much stronger advance commitments of the partners. In this case, it appears to be much more difficult to accommodate changes in interests or conditions.[35] The bilateral type of TW joint venture also constitutes the nucleus for the stablishment of MNCs. The consulting and engineering MNCs deserve priority attention as this can be the first phase of possible future undertakings. That means consulting and engineering MNCs per se should be independent from MNCs in production or marketing.[36]

The heterogeneity of developing countries and the limitations of their infrastructures make it advisable to promote cooperation among TW countries in such a way that they gradually develop from the subregional to the regional level and in the later states to the interregional level. Or, at the sectoral level, the establishment of MNCs in infrastructures and/or in making advances to MNCs in production is a more complex and difficult undertaking.[37]

There has been remarkable growth in inter-Third World trade during the period from 1965 to 1982, particularly in manufactures among developing countries, which has been increasing at 10% per annum. By 1982, developing countries were exporting $11 billion in manufactures to each other, or about 28% of their total manufactured exports.[38] This growth in trade took place despite formidable handicaps including the lack of adequate shipping and communication infrastructures for trade within the South.

What are the future prospects for such South-South trade? It appears that current patterns of intra-South trade cannot sustain a rapid rate of growth.[39] Much of the trade in capital goods is in competition with imports from the industrialized nations. The geographical coverage is limited: East and Southeast Asia (principally Taiwan, Korea, Hong Kong and India) account for two-thirds of their manufactured trade. The manufactured exports are quite capital and skill intensive in contrast to the labour- intensive trade between developing countries and industrialized countries. Further expansion of South-South trade will require somewhat different pattern arrangements.[40]

Development patterns must change fundamentally as well is present trade patterns are to change significantly. If development patterns are such that they cater to the requirements of the elitist groups in society, it is inevitable that trade channels will look to the industrialized nations for sophisticated consumer goods and modern technology. If development strategies are reoriented to alleviate mass poverty, trade will also focus on means of "meeting" the basic needs of society. Trade links between North-South cannot be weakened or diverted unless development patterns are changed simultaneously. TW countries can have agood deal of trade among themselves, in simple consume goods and simple technology; but this will happen only if they produce these goods and technology in the first place, for their own markets.[41]

TW MNCs and joint ventures could open up vast opportunities for the expansion of trade among TW countries. For instance, joint ventures are becoming particularly promising for the development of trade cum financing links. The joint venture can combine the capital resources resulting from capital surpluses. TW countries with land, human and other resources can link with other countries in the establishment of agricultural and industrial projects located in the capital importing countries and serving the mutual interest of all the parties involved. For instance, the oil-exporting countries are becoming partners in this type of venture. By 1990, it is estimated that they will be importing over 40 million tons of food grains at a cost of roughly $10 billion.[42] At the same time, the economies of food grain production has changed dramatically, with the rising costs of energy. The comparative advantage has shifted from the traditional food exporters (e.g. the United States) to developing countries with good agricultural potential but low productivity at present (e.g. the Asian subcontinent). Here is an opportunity for mutual long-term gains. Many TW countries have the capacity to produce food surpluses, but lack the necessary capital to do so. Oil exporting countries have little capacity to grow their own food, but possess financial surpluses to invest in other countries which can produce more food.[43] What could be more logical than oil-exporting countries investing some of their financial surpluses in food production in other TW countries and agreeing to receive back their payments in the form of food imports from these countries. Such a trade policy would pass several critical tests at the same time. It would promote international comparative advantage, it would enable some of the poorest TW countries to exploit their considerable agricultural potential and it would assure oil-exporting countries of overall food security as well as supplies from the cheapest sources of food products.[44]

There is yet another good reason why the TW MNCs do have a fairly good chance of increasing South-South trade - the "demand patterns" of the TW countries. First, demand patterns for imports in the South are different from those in the North. For consumer goods, sharp difference in income levels will create markedly different patterns of demand.[45] Small developing countries with inexperienced workers may tend to opt for capital goods that are of older design, simpler, more rugged, less specialized and less automated than those provided by the developed countries.[46] Second, these special demands generate in turn a special advantage for South-South trade, for they cannot be easily satisfied by the developed countries. For consumer goods this inability arises partly from the fact that the industries of the developed countries and partly from the high cost of re-equipping production units to make slightly different (or older) products for relatively small demand. Similarly, for capital goods, older vintages or adapted products are uneconomical to produce because older technologies are forgotten as equipment suppliers and their entire complex of subcontractors tool up for high-volume, new generation products. There are thus good a priori reasons to expect that these combinations of demand factors will provide special characteristics to South-South trade.[47]

A major hurdle in the way of South-South trade has been the lack of adequate trading infrastructures. The existing networks of shipping, communication, multinationals, banking, export credits and other international services generally link the markets of the south with those of the North. This was a traditional pattern and there was little effort to change it. One of the initial challenges for governments to consider in order to foster South-South cooperation, therefore, will be the setting up of necessary infrastructures to promote intra-South trade. As discussed earlier, this needs specific measures between various countries on a regional or subregional basis, or along functional lines, given their mutual interest in a particular proposal.[48]

To summarize, the future expansion of South-South trade will depend on the following factors:

- Encouraging the positive political initiatives required for developing greater South-South coopoeration, inspired by a genuine concern for the welfare of the masses.[49]

- Setting up of necessary trade infrastructures;
- Taking steps to encourage more Third World multinationals and joint ventures which would tend to lead towards the development of better shipment and distribution networks for commodities.
- Adopting measures which would treat TW MNCs as "infant" services, legitimately protecting them as was done for 'infant industries' in the 1950s and 1960s, through discrimination in their favour with preferential arrangements and taxation incentives.[51]

FOOTNOTES - CHAPTER VII

1. See UNCTAD (i) Review of Developments in Areas of Trade Expansion, UNCTAD/ECDC/TA/14 (1981).

   (ii) Measures for Strengthening Economic Integration and Cooperation among Developing Countries at the Subregional, Regional and Interregional Levels, UNCTAD/ST/ECDO/17, (27 April 1982).

2. See Group of 77 (i) Arusha Programme for Collective Self-Reliance and Framework for Negotiation, UNCTAD V (Manilla), Doc. TD/236/1979.

   (ii) Conference on Economic Cooperation among the Developing Countries, Caracas, (Caracas, 1981) G/77/FR).

   (iii) "Report of Mexico City from the 13th to the 22nd of September, 1976 - Resolutions of Decisions" in Collected Documents of Group of 77, Vol. V (UNCTAD, 1976).

3. See "Industrial Development and South-South Cooperation" (UNIDO/1S, 453).

4. See "Industrial Development among Developing Countries: Rationale, Obstacles and Lessons", UNCTAD/ST/ECDC/28, (1984) at 11-12.

5. See G. Correa, Economic Cooperation among Developing Countries, New Dimensions in the Thrust for Collective Self-Reliance, (New York, United Nations, 1980).

6. See Fourth Ministerial Meeting of the Group of 77, "Arusha Programme for Collective Self-Reliance and Framework for Negotiations", in Karl P. Sauvant, ed., The Third World Without Superpowers: The Collected Documents of the Non-Aligned Countries (Dobbs Ferry: N.Y. Oceana, 1981).

7. Ibid.

8. Ibid.

9. Supra note 2.

10. See "Economic Cooperation among Developing Countries: Review of Activities in the Major Programme Areas", UNCTAD/DOC/TD/281 at 25.

11. See "Economic Cooperation and Integration among Developing Countries - A review of recent developments in subregional, regional and interregional organizations and arrangements", UNCTAD/TD/B/C.7.51, Vol. 1 at 28.

12. See Report of the "Working Party on Trade Expansion and Regional Economic Integration among Developing Countries", UNCTAD/TD/B/C.7/55, Part Two.

13. See Supra note 1, UNCTAD/ST/ECDC/17, dated April, 1982.

14. See "The Potential for South-South Trade in Capital Goods Industries", Jeffery Nugent - U.N. Doc. No. ID/SER/4, dated April 1985, at 99-110.

15. See "Mechanisms and Instruments for Promoting Industrial Cooperation among Developing Countries", UNIDO/ID/Conf. 5/4, dated August 1984 at 2-18.

16. See UNCTAD. (i) "Economic Cooperation among Developing Countries", U.N. Doc. No. TD/244 (New York, United Nations, 1979).

(ii) "Policy Options for Promoting Industrial Cooperation among Developing Countries", UNCTAD ID/Conf. 5/4, dated August 1984 at 2-18.

(iii) "Economic Cooperation among Developing Countries: Review of Activities in the Major Programme Areas", U.N. Doc. TD/281, 1983.

17. See R. Green, Developing Countries' Multinational Enterprises, Notes Toward an Operation Component of Third World Economic Coopeation, Conferene on Economic Co-operation and Trade among Developing Countries, (Tunis, April, 1977) at 8.

18. See "Institutional Aspecs of ECDC/TCDC and Support Measures by International Organizations and Developed Countries", U.N. Doc. No. ECDC/TA/14, (1981), para. 101, at 24-25.

19. See "To Strengthen the Weakest Link in South-South Trade", U.N. Doc. No. UNCTAD/ST/ECDC 28, (1986) at 27.

20. See Z. Trputec, "The Rationale for Developing Countries' Joint Ventures", International Workshop on the Promotion of Economic and Technical Cooperation among Developing countries, UNCTAD/ECDC/14, p. 22.

21. See UNCTAD, Economic Cooperation among Developing Countries, TD/244, 1979.

22. Ibid.

23. Ibid.

24. See M. Sharpston, International Sub-Contracting, (1975) Oxford Economic Papers) at 65.

25. See ~~L.T.~~ Wells, Jr., "Foreign Investors from the Third World", in K. Kumar and M.G. McLeod, ed., Multinationals from Developing Countries, (Lexington, D.C. Mead, 1981) at 35-48.

26. See J. Nugent, "The Potential for South-South Trade in Capital Goods Industries", in ID/SER/14, at 99-113.

27. Ibid.

28. See B. Balassa, "Trade in Manufactured Goods Patterns", (1981) World Development, 9(3) at 263-275).

29. See H. Pack, "Fostering the Capital Goods Sector in RDCs", (1981) World Development, 9(3) at 227-250).

30. See M. Svetlicic, "Strategy and Potential for Establishing Multinational Enterprises in Developing Countries", in B. Pavlic et al., The Challenges of South-South Cooperation, (Westview Press/Boulder, Colorado, 1983) at 207.

30a. The establishment of multinational marketing enterprises of developing countries constitutes a more recent development. Their objective is to gain greater control over the production, processing, transportation and distribution of the main export products of these countries, as well as to promote the joint import procurement of major products of import interest to groups of developing countries. Several ventures of this type have been recently established or are in process of being established for the joint provision of goods and services. For example, at the initiative of the Union of Banana Exporting Countries (UPEB), six Latin American countries (Columbia, Costa Rica, Honduras, Panama, Nicaragua and the Dominion Republic) established a banana trading company, COMUNBANA, which started operations as Panamanian Company in 1977.

31. See N.A. Adams, "Trade Among Developing Countries: Trends, Patterns and Prospects", in The Challengers of South-South Cooperation, (Westview Press, Boulder, Colorado).

32. See U.N. Doc. No. UNCTAD/ECDC/28 at 20.

33. See R. Green, "Developing Countries' Multinational Enterprises, Notes Toward an Operation Component of Third World Economic Cooperation, Conference on Economic Cooperation and Trade Among Developing Countries (Tunis, 1977) at 18.

34, See (1) Report of the "United Nations Conference on Technical Cooperation among Developing Countries", U.N. Doc. No. CA/Conf. 79/13/Rev. 1 (United Nations, N.Y.).

(2) Report of High Level Meeting on the Review of Technical Cooperation Among Developing Countries, New York, (1980) United Nations General Assembly, 35th Session A 35/39.

(3) "Joint Ventures Through Technical Cooperation Among Developing Countries and Their Economic Potentials", UNDP Project INT/80/910, 1981.

35. Supra, note 33.

36. R.G Agarwal, "Joint Ventures Among Developing Asian Countries", UNCTAD TD/B/AC. 19/R.7, 1975.

37. Ibid.

38. UNCTAD Handbook of International Trade Development Statistics - Tables, 1978-1982.

39. See (1) O. Harvylyshyn, "The Direction of Developing Country Trade", (1985) Journal of Development Economics, Vol. 19 at 255-281.

(2) B. Balassa, "Trade in Manufactured Goods Patterns of Change", (1986) World Development 9(3) at 293-275.

(3) A.H.M.M. Rahman, Exports of Manufactures from Developing Countries: A Study on Comparative Advantage (Rotterdam, Rotterdam University Press, 1973).

40. See Mahmond Hamza, "Review of the Preferehtial Arrangement Outlined under the GATT Proposal relating to Trade Negotiations Among Developing Countries", *UNCTAD TD/BC7/49*.

41. *Supra* note 32.

42. *Ibid*.

43. S. Rehman, "Enhancing Trade Between OPEC and the Developing Countries of Asia", (1982) *Third World Quarterly*, October, at 719-35.

44. *Ibid*.

45. S. Lall, "South-South Economic Cooperation - Lessons from the Indian Experience", in *Multinationals, Technology and Exports* (New York: St. Martin's Press, 1985) at 211.

46. *Ibid*.

47. *Ibid*.

48. A.J. Yeats, *Trade Barriers Facing Developing Countries* (New York: St. Martin's Press, 1979).

49. Shridath S. Ramphal, "South-South: Parameters and Pre-Conditions", in Altaf Gauhar, *Third World Strategy: Economic and Political Cohesion in the South* (Praeger, 1983) at 17-23.

50. Mahbul Ul Haq, "Beyond the Slogan of South-South Cooperation", (1980) *World Development*, Vol. 8, at 743-751.

CHAPTER VIII

CONCLUSION

The preceding chapters have both traced the emergence of multinational corporations from Third World countries and have identified and examined the sui generis features of these MNCs. A number of distinct patterns in TW MNC FDI were noted and an analysis of FDI of MNC's based in India, the Republic of Korea, Singapore, Hong Kong, and Latin American was made to determine the extent to which this FDI from these countries conformed to these patterns noted.

VIII.1. Summary of Findings

The following is a brief summary of the common characteristics of TW MNC FDI:

(a) The geographical scope of the TW MNCs tends to be regional. There are some exceptions however. Indian and Southeast Asian Multinational corporations have operations in Africa, the Middle East and in a few developed countries.

(b) The direction of the investment flows, in general, from more advanced to less developed Third World countries. Not more than ten countries could be considered as actively involved in the promotion of MNCs in other Third World countries.

(c) The main motivation of TW MNCs is demand oriented and defensive. It tends to follow previous export-trade that is typically threatened by various import barriers. The small size of the home market and risk diversification are also important motivations. Supply-oriented motivations - such as rationalization, raw materials, sourcing and technology exporting strategies, etc., - and aggressive strategies for penetrating unexplored markets are not common at the present stage.

(d) The industries in which TW MNCs predominate tend to include traditional sectors such as food, textiles, wood and furniture, traditional chemicals or light engineering branches of the metal working sector. However, there are several examples of TW MNCs producing high technology and complex capital goods. Public sector (controlled by government) TW MNCs are typically found in large scale projects of basic industries such as steel or petrochemicals, or in international marketing organizations.

(e) The technology on which the TW MNCs are based usually derives from an initial transfer from abroad, via licensing or import of capital goods. Such technology has been subsequently assimilated and adapted by a domestic firm which, after a period, becomes able and willing to transfer a new "technology package" to less advanced Third World countries.

(f) The main competitive advantages of TW MNCs arise from the lower costs of the projects and the appropriateness of their technologies in comparison with those offered by transnational corporations of developed countries. There is some evidence on the comparative advantages, in terms of smallness of scale, less automation, simpler technologies, adaptation of local imports and consumers, and better terms and conditions, such as technology transfer modes and fewer transfer pricing practices.

(g) The organizational forms of TW MNCs are highly diversified. One pattern of differentiation with regard to MNCs from developed countries is much lower significance of equity control methods of organization. Besides minority and 50-50 equity joint ventures, investors from TW countries tend to organize their overseas projects through non-equity forms, technology transfers and international production, such as licensing, technical assistance and management contracts. The characteristics of the technology used by TW MNCs and the risks involved in equity structures explains such lower propensity of TW MNCs to internalize competitive advantages through equity control structures.

(h) Potential costs and disadvantages in TW MNCs relative to MNCs from developed countries may arise from the limited range of techniques that they control, their difficulties is upgrading the scale of technology when market conditions change, and their lack of a permanent source of technological innovations once the initial know-how has been transferred.

(i) TW MNCs may face a particular and complex set of problems preventing their formation and development. Some of them are related to the internal limitations of TW MNCs and they include difficulties in formalizing and transferring know-how, lack of intra-firm information networks for screening and evaluating investment opportunities and technology sources in other TW countries, and the scarcity of financial resources. Other types of problems arise from the unsuitability of the institutional environment for the creation of TW MNCs.

(j) TW MNCs are particularly sensitive to the direction and impact of government policies and, although they may have some advantages in being accustomed to Third World interventionalism, they normally do not have the same capacity as MNCs from developed countries, to navigate, manipulate and circumvent laws and regulations. Problems stemming from government policies range from protectionist measures, such as exchange controls and limitations for investments abroad, and discriminatory treatment by host government agencies, for the approval, financing and encouragement of TW MNCs projects.

(k) As for economic cooperation among developing countries (ECDC), it is believed that the TW MNCs and joint ventures are the most important vehicles. But, evidence shows a great-diversity among the joint ventures in TW countries. In many cases their internal organization, their aims, and business prawctices are similar to those of the TNCs while, in other cases they have a number of different characteristics. The experience of TW MNCs reveals that, in most cases, rather than acting as instruments of national investment, solidarity and equitable benefit distribution among developing countries, development of high priority sectors and bargaining capacities vis-à-vis TNCs, they are guided by classical profit-making strategies and motivations.

VIII.2. Recommendations for Action

The analysis of the present experience and trends is the best source of ideas about actions to be undertaken. Many researchers have suggested various measures, but the following criteria seem to be the most effective:[1]

(i) At the national level, government should provide for:

- Policies promoting the gradual technological development of nationally-owned MNCs, on the basis of learning by doing and adaptive efforts leading to an increasingly higher level of innovation capacity;[2]
- Controls on transfer of technology vis MNCs from developed country which will assume the assimilation and absorption of the knowledge of local firms;[3]

- A good "investment climate" for national firms, including effective support to small and medium-sized enterprises and incentives for the export of manufactures;[4]
- Direct encouragement of the investment and transfer of technology abroad by local firms, along the lines existing already in Brazil, the Republic of Korea, and India;[5]
- Availability of consulting and engineering services for helping would-be overseas investors to organize the transfer of technology;[6]
- National transfer for firms and investors of other developing countries;[7] and
- Active information and advisory services on market oppportunities, technologies and partners available in other developing countries.[8]

(ii) <u>At the bilateral or regional levels</u> the following measures could be required:

- Co-ordination of policies and regulations affecting reciprocal flows of investment of TW MNCs, on a global or sectoral basis;
- Sectoral programmes for the joint and complementary development of sectors where participation of national firms is feasible and including specific measures for promoting such participation;[9]

- Encouragement of associations of national firms of particular sectors at the regional level, and facilitating the participation of such associations in the regional integration and cooperation mechanisms;[10]
- Joint utilization of the procurement powers of the state entities within the region to the benefit of local firms of the participating countries;[11]
- Reciprocal assignment of foreign trade and investment consultants at the competent industrial development agencies;[12]
- Creation of co-investment funds among development banks of the respective countries;[13]
- Formation of one or more jointly-owned Development Finance Corporations (DFCs) designed to play a catalytic role through a package of advisory, technical and financial service to joint ventures (as DEG and GTZ of the Federal Republic of Germany and other DFCs of developed countries operate);[14]
- Development of regional trading companies in sectors of complementary or common export and import interests;[15] and
- The formation of a programme and the postulation of principles regarding MNCs and joint ventures, on which a majority of the developing countries can agree, irrespective of their level of economic development or socio-economic system.[16]

(iii) At the international, inter-regional levels the United Nations system should provide for or should facilitate the creation by developing countries of mechanisms for-reciprocal knowledge, approach, contacts and evaluation of TW MNC projects involving private and public firms of different regions, and without the presence of developed countries or representatives from developed countries as is the case with most U.N. mechanisms.[17]

VIII.3. Prospects for the Future

No matter how complex and complicated, and at the same time problematic the TW MNCs and joint ventures might look, the experience demonstrates that these TW MNCs and joint ventures have a remarkable ability to survive substantial political and other changes. Several interesting examples can be cited from the Arab world of rather remarkable survival power in the face of enormous political changes. The same can also be said in respect of joint ventures from ASEAN and Indian groups. Similarly, the experience in the case of TW MNCs also shows that the growth is accelerating. Although uphill now, only the more developed/industralized TW countries have established their MNCs and have been able to meet the peculiar need of TW markets.

Indeed, there seems to be little reason to expect a slowdown in the growth of multinationals from the Third World. Rather, growth is likely to accelerate. It has been, of course, the more industrialized countries that have provided firms with the first experiences in meeting the peculiar needs of the Third World markets. As a result, investment in Asia has come largely from Hong Kong, Singapore, Taiwan and India. Argentina and Mexico stand at the head of the list in Latin America.

The growth of foreign investors from the developing countries is, it seems, no less complex than the growth of multinational from industrialized countries. After close to two decades of research on advanced country enterprises, observers still disagree on their effects and their future. Any conclusion rests heavily on judgement and on the point of view of the observer.

According to L.T. Wells, Jr.,[18] the spread of foreign investors from TW countries is, in net, beneficial to the development process and to international relations. He further states that the tension between the rich countries of the North and the poor countries of South run deep. No single phenomenon, such as the emergence of TW multinationals is going to cause those tensions to disappear. Nevertheless, foreign direct investment among the developing countries has made a contribution toward reducing those tensions. Much of the friction between North and South arises out of the dependency felt by the poor countries when they must turn to the rich for assets critical to their progress. The developing countries' firms could reduce somewhat their dependency on the multinationals of the rich countries for the much-needed technology, thus benefiting both the rich and the poor.

Some joint venture TW MNCs (especially in the public sector) are offspring of bilateral economy negotiations between developing countries. Besides helping the partner countries, the investing governments hope to raise their exports of goods and services through direct investments. Host governments on the other hand, expect from these investments appropriate technologies free from political strings because they have the feeling of negotiating on the basis of equality. In so far as both sides are able to realize their aims, Third World direct investments are going to increase South-South investment and trade, which will have the effect of strengthening economic cooperation among these countries in other fields as well. Paramount among the many possibilities for economic cooperation among developing countries is the area of trade. Trade among developing countries is by no means a new phenomenon, but continuing recession and rising protectionism in the developed countries suggested that South-South trade may increasingly have to serve as an "engine of growth" for the developing countries. Although South-South trade accounts for a small and stable share of world trade, these flows have been of importance to developing countries since, over the past 20 years, they have represented an average of about one-fourth of their total exports to the world.

Trade among TW countries has been seen as fitting into the strategy of "collective self-reliance", which is viewed as the best way to escape from the "chronic disease of dependencia", with South-South trade patterns, and which has led to excessive specialization and consequent vulnerability, and to a loss of the dynamic benefits of trade among developing countries. Thus, the multinationals from these TW countries are the important mechanism necessary to increase South-South trade.

In conclusion, it can be said that MNCs from developing countries are varied and evolving rapidly. The question arises whether the TW MNCs are ephemeral. Some observers have suggested that foreign investment by developing countries will continue but that few individual MNCs have the wherewithal to survive in international production. Certainly some hasty investments by TW firms have ended in failure, but the growing technological and entrepreneurial dynamism of large numbers of Third World enterprises leads us to believe that many will flourish as international firms. Their ability to buy the technology they lack, and to enter into joint ventures with developed country firms, points to a capability to sustain their competitive edge when their own technological base is insufficient. In some high-technology industries they may disappear, but in industries where the frontier grows slowly they may well strengthen their hold in the future.

More recent data suggest a promising future for multinationals from Brazil and other developing countries. Latin American trade manufactures has been growing rapidly and no doubt investment will follow. Indeed there are many examples, one of which is a Brazilian bicyle manufacturer who followed exports to Bolivia and Columbia with investment. The efforts of Korea's Hyundai to sell its automobiles in West Africa were followed by the construction of local assembly plants and other African countries have tried to encourage local manufactures. Hyundai successfully repeated this pattern of success in Canada.

FOOTNOTES - CHAPTER VIII

1. Economic Cooperation and Integration Among Developing Countries - A Review of Recent Developments in Subregional, regional and Interregional Organizations and Arrangements, UNCTAD Doc. TD/B/C.7/5, Vols. I, II, III.

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