Developing Countries and Multinational Corporations: Effects on Host Countries' Welfare and the Role of Government Policy

INTRODUCTION

"The multinational corporations have developed distinct advantages which can be put to the service of world development. Their ability to tap financial, physical and human resources around the world and to combine them in economically feasible and commercially profitable activities, their capacity to develop new technology and skills and their productive and managerial ability to translate resources into specific outputs have proved to be outstanding.... At the same time, the power concentrated in their hands and their actual or potential use of it, their ability to shape demand patterns and values and to influence the lives of people and policies of governments, as well as their impact on the international division of labour, have raised concern about their role in world affairs. This concern is probably heightened by the fact that there is no systematic process of monitoring their activities and discussing them in an appropriate forum."

(U.N. 1973, p. 3)

"..It is beyond dispute that the spread of multinational business ranks with the development of the steam engine, electric power, and the automobile as one of the major events of modern economic history. Social and economic developments of this magnitude always entail a mixture of benefits and costs. Whether the balance in the aggregate turns out to be on the "benefit" or the "cost" side, a detailed perspective is needed for an understanding of precisely where the gains and losses are, so that public policy can be formed to preserve the gains and minimize the losses."

(U.S. Tariff Commission, 1973, p.78)

1. These extracts from two recent studies of the multinational corporation (MNC), eminent by virtue of their status and their comprehensiveness of scope, capture the essential problem posed by the emergence of this phenomenon. The MNC has come of age: it dominates the international economic scene in the non-Socialist world and is even making incursions into many Socialist countries; it has grown far beyond its traditional confines of primary product extraction to many branches of manufacturing industry, commerce, tourism, banking and other services; and it has created around itself an aura of superiority, dynamism and power, all the myths and symbols that accompany the rise of a new social force.

2. This paper seeks to examine the main effects of MNCs, mainly in the manufacturing sector, on the economies of developing countries, for the purpose of clarifying the issues of host government policy: what the benefits are which the government should try to extract, what the costs are that it

should minimise, what instruments it possesses to achieve its aims and what the main problems are in using these instruments. Much has been written about these question, especially on the costs and benefits, in recent years, yet the problem has become more complex, and the debate more heated, than otherwise. This has been especially true of MNCs in the poorer countries, and particularly in Latin America where their presence is larger than in other areas. We cannot hope to resolve the fundamental conflicts of opinion; but before we launch into the main body of our discussion it may be useful to mention two basic analytical problems concerning the broad social implications of multinational corporations.

3. First, these implications are far from being 'merely' economic. Hardly anything is ever 'merely' economic, in that economic relationships between people, groups or nations necessarily influence their social, political, legal and cultural behaviour. Certainly the MNC is too large an entity for us to assume that its overall social effects are neglible: it is a 'social' phenomenon in the widest sense of the word, and its impact must, however inadequately, be assessed as such. Most of the difficulties encountered in discussing its costs and benefits, the nature of its impact and the desirability of the diverse effects, arise in part because they are so diffuse and numerous, and in part because the value attached to any of them depends on the political and moral stance of the particular observer.

4. The magnitude of the multinational phenomenon thus raises enormous problems of analysis, and it would be incorrect to fit it into the narrow confines of orthodox economics, developed to explain a different sort of reality (and increasingly tending to social irrelevance). Yet alternative tools are sadly inadequate, and we have to try to steer a course between being technically conventional (and ending up with inappropriate trivia) and being over-general (and so saying nothing useful). We also have to try to define our values carefully: value judgements are a necessary basis for assessing social welfare, and so for discussing policy options, and since they are necessary they should at least be openly described. It is therefore obvious from the start that there cannot be definitive answers to the main problems regarding MNCs - not only can their effects not be fully guaged, any particularly definition of 'welfare' of host countries can be found faulty by someone with a different conception of welfare.

5. Second, a set of related difficulties arises from the fact that MNCs are only one of a set of economic institutions active today in the fields of trade, finance, technology and business. Multinationals are undoubtedly very important in all of them, but their role cannot be separated from those of, say, smaller firms, governments, trades and financiers: as far as the effects of MNCs on developing host countries are concerned, consequently, we cannot isolate the impact of multinationals from that of the developed countries as a whole. Again, we have to choose a middle path between putting too much responsibility on MNCs and absolving them altogether by considering only marginal effects.

6. There are many other problems at a more empirical level, which we shall mention below. The above qualifications must, however, be borne in mind throughout this paper, whose

arguments are, where appropriate, illustrated with data obtained by the present author in the course of case studies conducted for UNCTAD during 1969-73 (for a summary see Streeten and Lall, 1973).

CHAPTER I DEFINITIONS, CHARACTERISTICS AND SCOPE OF MNCs

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7. This part is sub-divided into three sections; the first attempts to give a workable definition of MNCs; the second discusses the main features which characterise the modern multinational (manufacturing) corporation, and the third presents some figures on the present size and distribution of MNCs, especially in Commonwealth countries.

Definition of MNCs

8. Though such terms as 'multinational', 'international', 'transnational' or'global' corporations (or firms, or enterprises) have entered the common parlance of economics and related social sciences, their exact meaning has not been clearly defined. Most authors use them interchangeably to mean more or less the same thing, while some differentiate between them to stand for different degrees of largeness, openness or lack of national commitment, and some others introduce a fresh terminology to classify their attitudes to the world (e.g. "ethnocentric, polycentric or geocentric"). The U.N. study devotes its entire Annex II (U.N., 1973, pp.118-21) to quoting different definitions used in the literature, all differing slightly in emphasis and interpretation, depending on the interest of the authors and their orientation.

9. It is natural at this stage that such a looseness of definition should exist, with terms being used flexibly to suit the task at hand. Since the tradition in economic analysis has been to think in terms of small firms maximising profits in competitive environments within their own countries, and to conceive of direct foreign investment simply as an (undifferentiated) part of "capital flows" abroad, the emergence of MNCs has led to most definitions being framed as contrasts to the traditional concept of the business enterprise. We can distinguish between three areas in which this contrast has been emphasised in order to characterise the modern MNC.

10. First, its <u>large size</u>, <u>geographical spread</u> and <u>resources</u>. This definition, used, for example, by Vernon (1971) and the U.S. Tariff Commission (1973),[1] is the one which appeals

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(1) The criterion used in selecting the 187 MNCs studies by the Harvard Multinational Enterprise project was to take those of 500 largest U.S. industrial firms which were in manufacring and which had subsidiaries in six or more countries. The U.S. Tariff Commission defines the MNC as a firm with "net sales of $100 million to several billion dollars. Direct foreign investment in manufacturing facilities in a number of foreign countries usually accounts for at least 15 to 20 per cent of the company's total investment. 'Direct' is generally thought to mean at least a 25 per cent participation in the share capital of the foreign enterprise, i.e. a large enough share to imply operational control of the enterprise..." (p.81).