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).

most directly to the economist; it highlights very effectively not only the differences between the MNC and the traditional "firm", but also between it and (a) the large national firm which does little investing abroad, (b) the small foreign investor who goes abroad but remains a relatively minor economic unit, and (c) the large firm which invests abroad but only in one or two foreign countries. As we shall note below, such MNCs also tend to be highly oligopolistic, marketing-or research-intensive, difficult for governments to regulate, and tightly controlled from the centre (the parent firm); however, these characteristics need not be included in a practical definition.

11. Second, its internal structure and organisation. This sort of definition generally takes size and geographical spread for granted and concentrates on the centralisation of authority, the strategy of international expansion, the ability to counter or circumvent the policies of particular host governments, or the division of labour between different units of the firm as the most significant features of the MNC. Clearly such a perspective, more that of the organsation or industrial analyst than the economist proper, enables one to highlight the distinction between the highly sophisticated, complex and tightly-knit structures possessed by most MNCs and the looser, more independent and less coordinated structures of smaller firms.

12. Third, its motivation and philosophy. The management specialist pays greatest regard to those aspects of 'corporate philosphy' and 'executive motivation' which mark the evolution to "true multinationalism", such as a global point of view, a lack of nationalism, an overwhelming concern with the firm as a whole rather than with any of its constituent units, or 'feeling at home' in every country of operation. Thus, of two firms of equal size with comparable investments abroad, one may be considered more 'multinational' than another if its executives are more 'egocentric' than the others. (1)

13. These three sorts of definitions, which we may label economic, organisational and motivational respectively, are each addressed to different aspects of the phenomenon. Each definition is correct in its own way, and suited to the analytical purpose of its originator; particular elements from each can be combined in order to facilitate a more comprehensive analysis, or further refined to study details of particular interest. What is common to all of them is a recognition of the important changes wrought by the growth of private firms from small or medium to very large sizes, and from production in one or two to a large number of countries. These are the most noticeable features of multinationals, others are rather more difficult to ascertain.

14. The definition which suits our present purpose is the simple economic one of size and spread, though for examining policy problems we shall also have to consider some organisational features of multinational investors. Since we are concerned to analyse the MNC from the view-point of a less developed host country, however, the economic definition provides the best practical start: it enables us to distinguish a small foreign investor from the large multinational one, and serves as a reasonable proxy for such attributes as their relative

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(1) This sort of definition based on attitudes is adopted by Perlmutter, 1960.

bargaining power, their control over technology and other resources, and their industrial and organisational structures. These distinctions are vital from the point of view of official policy, and it is unfortunate, for instance, that the U N study adopts the much broader and less useful one including every foreign investor as a multinational corporation, while most of its arguments are really directed to the large and powerful multinationals. The U S Tariff Commission also ends up by including every American firm with foreign manufacturing facilities in its study, which may facilitate statistical work but confuses the policy issues.

15. We are not in this study concerned with the statistical analysis of multinationals in developing countries, so that a precise separation of MNCs from other foreign investors is not of any relevance to us. At the cost of some terminological vagueness, we shall conduct our argument in terms of MNCs, defined as firms of very great size and investments in many countries, and 'other' foreign investors, smaller and less widespread; we shall ignore the inconvenient gray area between the two, consisting of firms on the verge of becoming multinational (1), for such fine distinctions will not lend much to the understanding of the problems at hand.

The theory of direct foreign investment and characteristics of MNCs

The definitions of MNCs in the previous section already suggests some of their prominent features; they do not, however, provide any sort of explanation of why foreign investment, by MNCs and others, takes place, nor of why MNCs are found to be concentrated in particular industries and why they have certain modes of operation. An incursion into the theory of foreign investment, though not at first sight relevant to the rest of the paper, will be very helpful in understanding the nature of the welfare effects of MNCs and the sorts of policies needed to cope with them.

17. There is a large body of literature on the theory, motivation and determinants of direct foreign investment, which often tend to be treated as one comprehensive explanation of this phenomenon. (2) We are not for the moment concerned with the motivation, though this is significant when policies are considered to attract and retain foreign investors to less developed countries; nor are we concerned with the determinants (which are closely related to motivation, but in the literature are dealt with by means of econometric tests rather than by questioning firms directly) of investment abroad, though this constitutes the attractiveness of a particular host country to the investors and therefore its bargaining strength. (3) This is because though motives and attractions do show from the firm's viewpoint why they wish to invest abroad, they do not show the underlying economic factors which permit such investment, and especially which permit foreign rather than local, and direct rather than portfolio, investment.

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(1) For an interesting comparison of the growth of small, medium and large firms in international business, see Rowthorn and Hymer, 1971.

(2) For a recent annotated bibliography, see Lall, 1974, (a) especially Chapter 3.

(3) See Reuber et al (1973) for a discussion of these two factors in relation to less-developed countries.

18. Traditional trade theory is singularly unhelpful in this respect. It treats direct investment simply as one component of total international capital flows, and assumes that such flows take place in response to differences in interest rates which reflect relative capital scarcities in different countries. Thus, while it may seem to explain why a particular investment has attracted capital from abroad - local capital is scarce and is already earning higher interest rates - it does not capture the vital difference between a movement of loanable funds (portfolio investment or foreign borrowing) and an act of direct investment which implies control from abroad as well as a whole package of different accompanying factors (marketing, technology, management, brand names and various other inputs). Interest is, in this context, quite distinct from profit in its implications, and it is the latter which is at the crux of direct investment.

19. Recent analyses of foreign investment have, therefore, discarded pure trade theory and turned to theories of monopolistic competition for explanations of why such investment occurs. (1) Such theories are based on an explicit recognition of the fact that firms' in the advanced capitalist countries as well as in international markets operate in an oligopolistic framework with a few large companies dominating their respective industries,and relying heavily on product differentiation, marketing, innovation, scale economies, access to capital and managerial efficiency to maintain and strengthen their dominance. In such a framework, capital does not flow freely between different uses to equalize returns, but tends to stay in the sectors in which it is earned and can show marked differences in its rates of return. Since it is these oligopolistic firms which do the bulk of investing abroad (and so become multinational), clearly capital spreads more easily across national boundaries than across industrial ones, and the same factors which explain the national growth of these firms can to a large extent explain their growth internationally.

20. The essence of the explanation lies in three sorts of advantages which these firms enjoy in investing directly.

21. Advantage of large established oligopolists over small local firms

In the case of developing countries, this advantage is overwhelming, since local firms, if they exist at all, lack the capital, know-how and organisation to compete with foreign firms. It is often argued that firms going abroad face the initial handicap of operating over long distances in alien environments (though it is difficult to imagine such a handicap being very substantial for present MNCs contemplating entry into a new market); obviously the comparative advantage of the international investor has to be sufficiently large to overcome the communication barrier.

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(1) The monopolistic-competition approach was first advanced in 1960 in an unpublished thesis by S. Hymer; it is expounded clearly by Kindleberger (1969), and extended by Caves (1971) and Knickerbocker (1973).

Kindleberger (1) distinguishes between four types of advantages:

i. In selling goods (in product markets), by means of of product differentiation, marketing skills, pricing policy, and so on.

ii. In production (in factor markets), by means of patented or secret technology, easier access to capital, better management.

iii. Economies of scale.

iv. Government policies, especially regarding imports and customs unions.

22. Of these the fourth is not of particular benefit to the MNC except when it is in a position to extract more concessions from national governments than other firms - not an unusual case. To the above list we may add such items as the ability of MNCs to evade taxes, to shut down particular operations, to call on direct or indirect support of their home governments, to manipulate international financial markets, and, more generally, to use the great power of their size, experience and versatility to bend social, market and political forces to their interest - a sort of cumulative advantage which grows with size and which is not properly captured by the simplified enumeration above.

23. The undeniable market power of large firms in industrial countries does not provide the complete rationale of foreign investment. We still have to explain why this power is not exploited by means of exporting the product, or, if that were not preferred, by means of exporting the different advantages they possess. There must be specific advantages to direct investment as compared to these alternatives.

24. Advantage of direct investment over exporting.

It is possible to argue that if all the oligopolistic advantages of large firms show up in lower prices, better quality product or larger captive demand, the firms should exploit these advantages by exporting rather than by undertaking the task of organising manufacturing operations abroad. Indeed, in many industries, exports expand with very little investment abroad (e.g.steel or aircraft); in others, exports of parent firms expand together with an expansion of their overseas investment. But why invest abroad at all? We can think of three reasons:

i. Firms may think, rightly or wrongly, that national markets in particular industries are better served by manufacturing subsidiaries rather than by mere selling agencies. Furthermore, it has been noted (especially by Knickerbocker, 1973) that oligopolistic firms pay great attention to what their rivals are doing, and that they feel their export markets severely threatened if a rival establishes a plant there. Perhaps being close to the consumer helps a better designed product, or perhaps the presence of a manufacturing plant induces greater sales efforts;

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(1) See Kindleberger, 1969, pp. 11 - 27.

the 'follow-the-leader' pattern of investment abroad observed, however, seems to indicate that these are simply rationalisations of a more basic need not to be left out of any action which is taking place. This oligopolistic investment pattern occurs regardless of whether or not there are other threats to export markets.

ii. These other threats, chiefly or tariffs or quantitative restrictions in importing countries, can induce firms to switch from exports to direct investments. Indeed, these are often cited as the main factor behind the growth of foreign investments in developing countries.

iii. While the first two advantages of direct investment over exporting arise mainly from marketing factors, a different kind of pressure to invest arises from technological factors. This is explained by the 'product cycle' theory, which takes accountof the fact that technological superiority is not a permanent advantage, but is eroded over time by the diffusion of knowledge, competition in research, and imitation. (1) Thus, a firm with major technological innovation can rely on exporting from the home country, which has the richest market, only as long as there are no effective competitors; once other firms can produce substitutes, costs of production become more significant, and the innovating firm has to shift manufacturing to more economical areas. The parent firm would continue to produce and export commodities in which its technological lead was still untrammeled, while subsidiaries in lower cost countries would take over the manufacture of threatened products.

25. These factors all contribute to direct investment being in particular cases a more profitable means of capturing and serving foreign markets than exporting; they explain, in other words, why the existing oligopolistic market power of particular firms is best exploited by one means rather than another. But we still have to consider why the elements of the oligopolistic 'package' are themselves not sold abroad as a substitute to direct investment.

26. Advantage of direct investment over the sale of production and marketing skills

Just as there is a balance to be struck between the profitability to a firm of exporting vis a vis investing,there is a balance to be struck between the profitability of investing vis a vis selling licenses, management services, patents, brand names, etc., or lending its capital abroad. In many cases it is clearly preferable to do the latter, and many firms from developed countries do sell these particular productive factors, mainly technology, to other firms in developing countries. (2) The decision rests on a

(1) This theory owes its origin to R. Vernon; for a recent exposition, see Vernon,1971, Chapter 3.

(2) We may regard a foreign investment in a very small percentage of the equity capital of a local firm, which gives no control to the foreigner, as a 'sale' of technology rather than direct investment proper, which is generally associated with control from abroad.

number of factors, such as the riskiness of direct investment, the size of the market, the value of the technology to the firm, the threat to sales elsewhere, the policies pursued by host governments and the attitudes of the firm itself. In general, the more attractive and stable the market, the newer and more specialised the technology and the more out-ward looking the firm, the more will the balance be struck in favour of direct investment; and the smaller or riskier the market, the more diffuse the technology, and the more restrictive the government, the more will it be struck in favour of selling the factors. The 'product cycle' model also partly explains the urge of firms to sell technology in its middle age when other reasons prevent its exploitation by investment.

27. While MNCs do occasionally sell some of their 'advantages' separately - the sale of Fiat know-how to the Soviet Union is a good example - in most cases they prefer to exploit them by means of setting up subsidiaries; it is the smaller manafacturing firms, which are not great innovators and which do not have other sources of market power to compete with MNCs, and more specialized service firms (consultants, accountants, traders) which are more likely to sell particular elements of the package. It should be obvious why. The MNCs maintain their oligopolistic leadership precisely because of their ability to combine several elements into a profitable package; once the package exists, the marginal cost of using it in new areas is relatively small and the quasi-rents implicit in exploiting it by direct investment are relatively high. The local firm which wants to buy a particular element of the package cannot really offer full compensation to the MNC because it is not paying in full for the quasi-rent foregone on the other elements. Since it is in the nature of things impossible to separate all the elements and sell them (e.g. the MNC cannot sell its organisation, experience or contacts) it will usually pay the MNC to invest and capture the whole quasi-rent rather than collect royalties or management fees.

28. There are, moreover, dangers to export markets and to technological superiority inherent in selling licences and trade-marks to unrelated firms. It has been argued that a firm is an 'organic' unit, and the returns on a particular investment affect the profitability of all its other investments. If this were true, the MNC would prefer to invest even in cases where the marginal profit were not much higher than, say, the alternative of selling a license, in order to protect the market and earning power of the enterprise as a whole: it would not in this case simply compare the marginal rate of profit on an investment with the relevant royalty offered. It also follows from the nature of the oligopolistic 'package' that the MNC would prefer to retain complete control over its subsidiaries so as to prevent others from its quasi-rents. The preference would be strengthened by the direction of the recent organisational changes in multinationals which have accompanied their growth in size, and which have tended towards increasing centralisation and tight control of certain important decisions. (1)

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(1) See U.N., 1973, Chapter II, and a more comprehensive analysis in Stopford and Wells, 1972.

29. A review of the theory of direct foreign investment enables us to see why MNCs expand abroad, both from the 'inside' (the preferences of the firms) and the 'outside' (the market factors), and provides a useful framework within which to consider the particular welfare implications and policy issues of MNCs. Before we leave this secion, however, we may remark on some of the main characteristics of multinationals which are not clearly brought out by the theory and which will be valuable in further discussion.

Main characteristics of MNCs

30. First, MNCs are heavily predominant in certain manufacturing industries and not in others. They thrive in oligopolistic industries which are characterised by one or both of two factors: the importance of marketing (advertising, product differentiation, taste creation, brand names, etc.) and the necessity of continuous innovation (both minor, in terms of small changes in models or packaging, and major, in terms of new processes and products). The relative importance of marketing and innovation differs from industry to industry, with the former playing a larger role in consumer goods industries and in industries with comparatively stagnant technology. The distinction between these two sources of market power cannot, however, be drawn very clearly, since a great deal of research and development expenditure, all classified as 'technological', in fact goes into what may be broadly termed 'market research' (i.e. adapting products to suit particular tastes, which may in turn have been created by advertising) rather than into technological c: nge proper. MNCs are found mainly in such manufacturing industries as food products, pharmaceuticals and other chemicals, rubber products, electrical and non-electrical machinery, transport equipment and paper, with chemicals, machinery, and transport equipment accounting for over half of the total.

31. Second, it follows from the nature of MNC's advantages and specialisation that their products have one or both of two characteristics: they are produced by techniques which are very advanced and highly capital-intensive, and they are consumed by groups with relatively high incomes (relative that is, to the population in general, especially in less-developed countries) and tastes similar to those of the advanced countries. (1) While there seems to be no logical reason why MNCs should not utilise labour-intensive techniques and produce commodities for the mass of the population, the theory of direct investment shows clearly why this is not where the commercial advantage of MNCs lies.

32. Third, the growth of the largest firms has been marked by an increasing concentration of decision-making powers in the central organisation, with routine matters delegated to the operational units but key matters tightly controlled by the head office. While the distribution of power within an enormous enterprise is not easy to decipher, and there may be opposing forces at work, there is little doubt that the evolving structure of MNCs has led to, even necessitated, a gathering of vital functions at the apex and a close-knit

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(1) It should be noted that what is considered a mass consumption item in a rich capitalist country (e.g. a refrigerator, small car, television or washing machine) may be an elite commodity in most less-developed countries.

hierarchical structure to enable world-wide operations. (1) When considered together with the growth in the economic power of the firms themselves, the implications are that the leaders of multinationals have come to form a super-elite in political and social terms, wielding enormous influence on various aspects of the life of their home countries and, in somewhat different ways, of their host countries. The realisation that the large corporations have great socio-political power, and that economic elites are closely interwoven with political and other elites, has not yet seeped into the main body of economic thinking, but it has become a commonplace in sociology and corporate analysis. (2) These tendencies mean that the growth of MNCs has created greater concentration of power (broadly conceived) both externally, in their social context, and internally, within the organisations themselves.

33. Fourth, with their increasing economic strength and the evolution of a 'global perspective' to go with their global spread, the MNCs have developed (or, more precisely, are in the processing of developing) certain financial strategies which enable them to maximise their overall profits in, and minimise their overall 'exposure' to, a world of political risk, exchange rate instability, tax differences, imperfect capital markets and gaps in host countries' knowledge. These strategies involve a certain pattern of capital financing, using relatively little investment from the parent firm and relying heavily on local gearing and reinvested profits; the manipulation of transfer prices, the prices assigned to goods traded between different units of the same firm, and other arbitrarily assigned payments, such as royalties, management fees and interest, to minimise tax obligations and circumvent monetary policies and restrictions on dividend remittances; and the minimisation of exchange rate 'exposure' in risky situations by appropriate management of liabilities in different currencies, sometimes amounting to active speculation against weak currencies. (3)

34. There are many other features of multinationals which are of significance, but the ones noted above are particularly relevant to our analysis of effects and policies. It should be apparent that all these characteristics of MNCs are to some extent peculiar to them, and mark them off from other types of private enterprise, foreign investors and other means of selling components of the 'package' which we mentioned above. The reasons which enable MNCs to reach their enormous size, the changes which accompany thier growth, and the strategies which evolve to strengthen their position, all impart a distinct character to multinational firms; the next section provides some data to illustrate their magnitude.

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(1) See Hymer, 1972: Barnet and Muller, 1974; and, on financial aspects, Robbins and Stobaugh 1973.

(2) For recent works along these lines, see Tilman, 1974, and Stanworth and Giddens, 1974.

(3) See Robbins and Stobaugh, 1973, for a detailed discussion of 'optimum' financial strategy for multinationals.

Scope of foreign investment and MNCs

Quantitative information on the size and distribution of foreign investment in general, and on MNCs as a group, is far from adequate. This is so partly because of differences in definitions of multinationals employed by different surveys and partly because detailed data are not readily available for the exact value of foreign investment and for the activities of non-U.S. multinationals. Having due regard to problems of interpreting book values and estimates based on incomplete data, however, we may still get a reasonable picture of the present situation. The U.N. study (1973) provides the most recent figures, and we shall draw heavily on it, supplementing, where necessary, with data from the U.S. Tariff Commission's report (1973) on American MNCs.

36. The total value of foreign private investment outstanding in the world is $165 billion, of which two-thirds is in developed and one-third in less-developed countries. The U.S. accounts for over a half of the total, and, together with the U.K., France and West Germany, accounts for over 80% of the total. Other countries with large foreign investments are Switzerland, Canada, the Netherlands, Italy, Belgium and Japan, with most other developed countries having some foreign interests.

37. MNCs predominate heavily in the foreign investment scene. About 250-300 firms account for over 70% of U.S. investment abroad while 165 firms for the U.K., and 82 firms West Germany, control over 80% and 70% of their foreign investments respectively. The MNCs in turn are highly concentrated: of the 650 largest industrial corporations in the world for instance, the 4 largest (3 U.S.) account for about 10% of total sales, and the 210 largest (127 U.S.) for about 70% of total sales. (1) In terms of international spread, about 500 corporations from developed countries, the multinationals *par excellence*, have affiliates in over 10 countries.

38. The growth of foreign investment has been dramatic after the Second World War, with the pace accelerating in the 1960's. Between 1960 and 1971, the book value of U.S. direct investment abroad rose from $33 to $86 billion, that of the U.K. from $12 to $24 billion, that of West Germany from under $1 to over $7 billion, and that of Japan from under $0.5 billion to almost $5 billion. Developed countries received substantially more foreign capital inflows than less-developed countries. (2)

39. Manufacturing accounts for more than 40% of total foreign investment, with its relative importance being greater in developed countries than in less-developed ones (where extractive industries are still more important). In recent years multinational expansion has also taken place in such sectors as banking, tourism and consulting. Within the manufacturing sector, technology intensive industries are, as noted above, especially important, with chemicals, machinery and transport equipment being of particular significance in US foreign investment.

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(1) U.N., 1973, Table 1.

(2) Among developing countries, Latin America accounts for 18% of total foreign investment in the world, Africa for 6%, Asia and the Middle East together for 8%.

40. The significance of MNCs in the world economy is illustrated by the value of their production and trade. The UN study points out that "the value-added by each of the top ten multinational corporations in 1971 was in excess of $3 billion - or greater than the gross national product of over 80 countries. The value-added of all multinational corporations, estimated roughly at $500 billion in 1971, was about one-fifth of world gross national product, not including centrally planned economies".(1) Since the growth of investment and production by MNCs has outstripped that of most countries' GNP, their share of world output has continued to grow rapidly in recent years. While predictions of their future role in the world economy are obviously subject to many qualifications, many sober observers foresee an international capitalist framework of production with a handful of MNCs controlling up to three-fourths of investment and output.

41. The international production of MNCs may to some extent have substituted for trade between countries, but it has not by any means diminished their importance in international trade. The US Tariff Commission study finds that American MNCs (broadly defined) and their affiliates by themselves account for a quarter of world exports of all commodities and a fifth of world manufactured exports: for the US alone, they account for 62 per cent of manufactured exports and 39 per cent of manufactured imports. It also notes that "as a group, private institutions on the international financial scene controlled some $268 billion in short-term liquid assets at the end of 1971 - and the lion's share of these assets was under the control of multinational firms and banks headquartered in the United States. (This) was more than twice the total of all international reserves held by all central banks and international monetary institutions in the world at the same date". (2)

42. The importance of MNCs varies greatly from country to country in the developing world, with only a few countries having stocks of foreign capital exceeding $1 billion: Argentina, Brazil, India, Mexico, Nigeria,Venezuela and a few Caribbean islands account for 43% of total foreign investment in developing countries. In the manufacturing sector, Argentina, Brazil, India, Mexico and Philippines each has foreign investments of over $200 million. The United States accounts for over half of foreign investment in developing countries, but in the Western Hemisphere its importance is much greater, while in the Commonwealth countries Britain tends to predominate. The table in Appendix 1 (page 00), presents data on the stock of foreign capital in 20 developing Commonwealth countries, (including Hong Kong) owned by Development Assistance Committee (DAC) countries, which comprise nearly all the providers of foreign aid and investment in the non-communist world. Of the total private investment in the developing world of $33 billion, the Commonwealth countries in the table account for $6,350 million or 19%. The share of Britain in the total for all developing countries is far smaller than its share in the Commonwealth; the reverse is the case for the US, though the rate of growth of the latter has been faster

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(1) UN, 1973, p.13. Emphasis added.

(2) US Tariff Commission, 1973, pp. 8-9. Emphasis added.

than of the former.

43. Finally, a note on ownership and financing patterns. There are a number of reasons mentioned above, such as the existence of large quasi-rents, technical secrecy, centralised control, transfer pricing, etc., which predispose MNCs to seek complete or majority ownership of their foreign investments. While control can be exercised even with minority share holding or a management contract, clearly a dominant ownership position is less vulnerable and preserves quasi-rents better. Thus, the U.N. study reports that "at least 80 per cent of United States affiliates and 75 per cent of United Kingdom affiliates are either wholly-owned or majority controlled. In terms of stock investment, these two countries have placed about 90 per cent in affiliates which are at least majority owned."(1) Japanese firms appear more willing to accept minority positions, partly because more of their investments are in developing countries which tend increasingly to impose statutory limitations on the extent of foreign ownership. This tendency has of course, also affected new British and American investments, and has, despite the MNCs' own preferences, (2) led them to becoming generally more flexible as regards their demands for certain patterns of ownership and control.

44. As far as financial strategy is concerned, the analysis of U.S. MNCs by the Tariff Commission suggests that firms keep the amount of equity investment by the parent company to a minimum (12% in manufacturing), and rely on local borrowing (35%), profits (27%) and depreciation (26%) to finance their expenditures (in new plant, 46%, in current assets, 43%, and in profit remittances, 11%).(3) In part this has been caused in recent years by the U.S. Government's policy of discouraging exports of capital from the home country and by the enormous opportunities offered by the Euro-dolaar market; in part it has been the rssult of deliberate policy on the part of firms to gear their capital highly, to limit their capital costs and to reduce their 'exposure' to exchange risks by minimising the commitment of resources from abroad.

45. This concludes our sketch of the scope of foreign investment and MNCs. The picture is, in brief, one of a world with rapidly increasing 'international production' dominated by a few hundred multinational firms from developed countries, mainly the U.S., with trade, investment, and technology in the most dynamic sectors all coming under their aegis; an interpenetration of the developed countries by each others' multinationals, with the less-developed countries accounting for a small and relatively stagnant portion of international investments; a growing and enormous concentration of economic power in a small number of private enterprises which by any measure are more important than a relatively large number of host countries; and, following naturally from all these, a growing anxiety about the effects, responsibilities and regulation of such a scale of private enterprise. We now turn to a discussion of the effects on less-developed host countries.

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(1) U.N. 1973, p.12.

(2) See Tomlinson, 1970, and Stopford and Wells, 1972.The exact pattern of ownership is, of course, determined to some extent by the relative bargaining strengths of the firms and host governments.

(3) U.S. Tariff Commission 1973, pp.420-21. The figures are for 1966-70. Very similar findings are reported for Southeast Asian countries by Allen, 1973.