ΕΛΕΓΧΟΣ

ΟΙΚΟΝΟΜΙΚΑΙ ΚΟΙΝΩΝΙΚΑΙ ΤΕΧΝΙΚΑΙ **ΣΠΟΥΔΑΙ** ΤΡΙΜΗΝΙΑΙΑ ΕΠΙΣΤΗΜΟΝΙΚΗ ΕΠΙΘΕΩΡΗΣΙΣ
ΕΚΔΟΣΙΣ ΤΗΣ ΕΝ ΠΕΙΡΑΙΕΙ ΑΝΩΤΑΤΗΣ ΒΙΟΜΗΧΑΝΙΚΗΣ ΣΧΟΛΗΣ

| ΟΙΚΟΝΟΜΙΚΟΝ ΕΤΟΣ 1977 | ΙΑΝΟΥΑΡΙΟΣ - ΜΑΡΤΙΟΣ 1977 | ΚΖ' ΤΟΜΟΣ | ΑΡΙΘΜ. ΤΕΥΧΟΥΣ 1 |
|---|---|---|---|

# WHAT PRICE MULTINATIONAL CORPORATIONS IN THE THIRD WORLD? *

By

A. J. KONDONASSIS
University of Oklahoma

CHARLES LANGSTON
Old Dominion University

## Introduction

In recent years, the dimensions of international business have mushroomed. While international business is, of course, nothing new, its growth in this century, particularly since the end of World War II, has been spectacular. In 1950, the book value of United States direct investment abroad totaled $11.8 billion.[1] Within ten years, by 1960, direct investment had risen to $31.9 billion.[2] By 1971, the book value of direct investments had increased to $86 billion.[3] The value of production abroad by U.S. owned international subsidiaries in 1970 has been estimated to be $200 billion, a 73 % increase over 1967.[4]

But these figures are only for U.S. based multinationals. About 45 % of total direct investment abroad is held by non-U.S. citizens. In 1970, when the value of U.S. foreign direct private investment was $78.1 billion, the world total for non-communist countries was $140.2 billion.[5]

Considering that the preceding figures are based on incomplete data and that actual investment figures are probably somewhat higher, it becomes readily apparent that the growth rate and absolute size of private direct investment are large.

The impact of the multinational corporation on the economic development and welfare of the people of the less developed countries has been subject to considerable debate.

In this debate, some have propagated the multinational as the long sought panacea for the economic ills of the less developed countries. Others have categorically labeled the multinational corporation as the instrumentality of a new

---

* This study is an abstract of a larger study which was first presented to the Southwes Social Science weetings in Dallas, Texas in the Spring of 1974. The authors are David Ross Boyd Professor of Economics and Assistant Professor of Management respectively.

form of neocolonial imperialism. The paucity of studies attempting to analyze both the potentially adverse and benefecial effects of multinational corporations on economic development has hindered development planners and macro technicians in their attempts to develop appropriate policies *vis-a-vis* attraction of direct private investment and subsequent regulation of this investment.

It is the main purpose of this study to examine in some detail some of the arguments for and against the multinational corporation from the point of view of its probable impact on the economic development of the less developed countries.

**The Concerns**

Critics of multinational corporations identify several areas with which they feel less developed countries should be particularly concerned. These problem areas are the subject of this section.

Fear of Domination

Much concern has been expressed about the challenge to national sovereignty of multinational corporations. This concern has been expressed by a growing number of people. Jean-Jacques Servan-Schreiber has very clearly articulated this in his best-selling book, *The American Challenge.* [6] As fər back as 1967, British Prime Minister Harold Wilson warned against potential domination of U.S. investment : «Our American friends, because they are friends, will understand when I say that however much we welcome new American investment here, as in other parts of Europe, when that brings with it a wider market and benefits of new know-how, new techniques, and new expertise, there is no one on either side of the English Channel who wants to see capital investment in Europe involve domination or, in the last resort, subjugation.» [7] To analyze this fear of domination, it is helpful to look at both the economic and political power bases of multinational corporations.

**The Economic Dimension**

The source of this growing concern stems in part from the size and economic power of U.S. multinational enterprises *vis-a-vis* less developed countries. Numerous studies have examined the size and economic power of the multinational corporation relative to less developed countries. At least eighty-five multinational corporations have assets larger than some fifty members of the United Nations. [8] Of the forty largest economic entities in the world, at least eight are multinational corporations. [9]

That multinational corporations have great economic power *vis-a-vis* underdeveloped countries is quite evident, and extrapolations indicate that this economic power may well increase. The following projections of future development

of multinational corporations were cited by Chadwick Alger in the September 1972 issue of *The Annals of the American Academy of Political and Social Science* :

> In another twenty years, 600 or 700 corporations will control most of the business in the non-Communist world. [10]

**The Political Dimension**

While it is apparent that multinational corporations possess great economic power, the extent of their political power is less obvious. Directly, multinationals possess no military or political power. Their power base depends on the political strength of their home-base government. A detailed analysis of the numerous transmission belts of influence from the U.S. based multinational to the U.S. Government is beyond the scope of this report. Only a few of these potential transmission belts will be listed.

Dennis Ray has stated that, «the most direct and probably the most effective mechanism of corporate influence is the pattern of recruitment of foreign and national security policy officials.» [11] In 1956, 47 percent of the Foreign Policy Elite had business and finance backgrounds. [12] A study by Richard Barnet has shown that from 1940 until July 1967, of the 92 men who held the very top positions--the secretaries and undersecretaries of the State and Defense departments, the secretaries of the three branches of the military service, the chairman of the Atomic Energy Commission and the director of the General Intelligence Agency-seventy came from major corporations and investment houses. [13] Eight out of ten secretaries of Defense have been recruited from business corporations or investment houses; seven out of eight secretaries of the Army; every deputy secretary of Defense; three out of five directors of the CIA; and three out of five chairmen of the Atomic Energy Commission. [14] Eighty-six percent of the secretaries of the Army, Navy, and Air Force were either businessmen or lawyers with a business practice. [15] In his conclusion on recruitment policies, Ray states :

> The process of tapping high-level foreign policy officials from the business community biases the structure of decision-making towards business, for government is not just conscripting the talents of the businessman; it is buying his ideology, his values, and his orientation towards the world. [16]

Another source of influence is financing. Recent examples of this form of influence are IT & T and the Milk Producers Association. In 1960-61, thirty-seven percent of the Council of Foreign Relations funds came from eighty-four large corporations and the Foundations, particularly the Rockefeller, Ford, and Carnegie Foundations. [17]

That business can also use its influence with the government to solicit governmental action, both in terms of legislative policy and military operations, has been evident on a number of occasions.

Many of the multinational corporations are now highly dependent on their overseas investments for a large percentage of their sales and profits. The list of the corporations whose profits from foreign operations account for more than 50 percent of total corporate profits is growing. For the year 1970, several multinational corporations derived a substantial percentage of their total profits from overseas operations as shown below :

| Corporation | Percentage |
|---|---|
| 1. Uniroyal | 75% |
| 2. Goodyear Tire | 43% |
| 3. Firestone | 40% |
| 4. Boise Cascade | 47% |
| 5. Sybron | 60% |
| 6. Phillips' Lamp | 95% |
| 7. IT & T | 50% |
| 8. Fairchild Electronics | 100% |
| 9. Dow Clemical | 45% |
| 10. Monsanto | 31% |
| 11. Celanese | 31% |
| 12. Alcan Aluminum | 60% |
| 13. Unilever | 84% |
| 14. British-American Tabacco | 57% |
| 15. Gillette | 50% |
| 16. Woolworth | 61% |
| 17. Sunbeam | 40% |
| 18. N C R | 51% |
| 19. Honeywell | 37% |
| 20. I B M | 51% |
| 21. Xerox | 38% |
| 22. Burroughs | 45% |
| 23. Heinz | 47% |
| 24. Anderson, Clayton | 45% |
| 25. Pfizer | 55% |
| 26. Squibb | 55% |
| 27. Upjohn | 55% |
| 28. Johnson and Johnson | 36% |
| 29. Warner-Lambert | 33% [18] |

That foreign investment is important to these corporations is readily apparent. In some cases, the survival and growth of the firm depends on foreign investment. If one looks at the total number of firms deriving at least 25 percent of total profits from overseas operations, the list contains literally hundreds of firms. In fact, according to Department of Commerce figures, earnings on all U.S. private foreign investment in 1969 amounted to one-fourth of the after tax profits of all U.S. nonfinancial corporations. [19]

If the number of firms having sales above $100 million, operations in at least six countries, and overseas subsidiaries accounting for at least 20 percent of total corporate assets are listed, over 4,000 firms will appear on the list. [20]

Whereas in times past, foreign operations were viewed as secondary, they have today become a major portion of the activity of many firms. Threats to the existence and profit of foreign operations, whether the threat be in the form of nationalization or profit repatriation restrictions, pose in some cases threats to the survival of the firm. In such cases, the firm has an apparent motivation to solicit whatever support it can obtain to protect its overseas investment.

This motivation, however, is somewhat tempered by the presence of overseas risk insurance. Many firms have their overseas assets insured against loss due to political reasons, e.g., nationalization. While political risk insurance tempers

the motivation to seek government support in times of trouble, it does not totally negate such motivation. The Foreign Credit Insurance Association will insure foreign assets up to a set limit. Beyond this limit, the loss must be borne by the company. Also, there is often a substantial difference between the book value of assets and the earning power of assets. Besides the book value of assets, the company loses the potential profit it could have made by employing those assets in the use to which they were being applied. As a result, multinational corporations have an incentive to seek government intervention in their support.

**The Implications**

These economic and political forces have raised substantial fears of adverse effects of multinational corporate investment in less developed countries. Less developed countries have often perceived multinational corporate investment as the potential base for a post-colonial form of private economic imperialism.[21]

So in some cases, particularly where the economic power position of the less developed country is weak relative to the multinational corporations, multinational investment may have adverse effects on national identity and national sovereignty. The ability of the less developed country to continue to guide its national destiny may be threatened. The country may possibly be left economically and politically subservient to others.[22] In some instances, as Brown states :

> The cumulative picture that emerges is one of governments losing their controlling influence over important transnational flows of people, material, money, and ideas, while other organizations... gain in ability to allocate resources, privileges, and penalties across national boundaries.[23]

If less developed countries lose control of their sovereignty, then their bargaining position *vis-a-vis* multinational corporations will tend to weaken and, if the multinationals retain their identification and loyalty with their home country, as some studies indicate is the case,[24] the actions of multinational corporations may impede the economic development[25] of the less developed countries. These countries may be able to capture only a small portion of the multinational corporations profits through taxation.[26]

Under these conditions, multinational corporate investment may not be in sectors that create net spread effects but may be mostly in the extraction of raw materials.

Also, the multinational corporation may not transfer useful technology to the underdeveloped countries; may not hire and train local nationals but may import skills; may not use earnings to finance expansion but may transfer earnings to headquarters; and may create balance of payments problems in the underdeveloped countries.

## The Missing Link

At this point, the process of derivation of the foregoing conclusions and implications deserves evaluation.

As developed previously, three arguments are basic to the political domination conclusion; they are, the argument that multinational corporations have great influence on the U.S. Government decision making, that motivation exists for multinational corporations to use this influence, and that this influence has been used (and, by implication, can be used) by multinational corporations to solicit governmental support. But the «by implication» is a weak link. That multinational corporations have in times past effectively solicited political and military support from the U.S. Government is a proposition that research findings have tended to validate. But it is instructive to look at the cases that are given to illustrate such government intervention.

Tanzer's contention that the intervention in the Dominican Republic resulted from corporate pressure to protect business interests is not supported by the research findings of students of the Dominican intervention. If the Dominican case is excluded as illustrative of businesspressured governmental intervention, one finds that of the cases commonly referenced, four occurred between 1953 and 1963 and none between 1964 and 1973. When viewed from this perspective, the available evidence raises some questions concerning the validity of the «by implication» assumption.

## The Zero-Sum Game

But even if the fear of domination did not exist, ethnocentrism would still remain a problem. Traditions and customs within less developed countries have served to prolong and accentuate the suspicion of foreigners, particularly of foreign business firms. Ethnocentrism is inseparably interwoven with nationalism and national ideology.

The ethnocentrism of the populace of many less developed countries can be better understood if one looks at the attitudes of the populace toward the magnitude of total economic activity. Among the general populace of many less developed countries the total magnitude is perceived as static. As Culbertson has noted :

> In much of the world, the idea that economic dealings can be mutually rewarding is not widely understood. Economic dealings are thought of as a zero-sum game. If the foreign business is profitable, it must be exploiting the host country. This interpretation is supported by Marxist exploitation theories of investments and, of course, by some political candidates. [27]

This view of economic exchange appears not to be too inappropriate a categorization of the attitudes of the typical «man in the street» in many less developed countries. An opinion study in Brazil appears to show the existence of

this attitude. The results of the study showed that two-thirds of the people felt that foreign investors should be allowed to take no profits out of the country. [28]

There are, of course, cases in which the profits of multinational corporations may be properly viewed as exploitative. But even when the profits are not exploitative, the mere fact that it is widely believed that they are may involve political costs. Support of foreign investment by the political regime in a less developed country may cause a deterioration of the confidence of the people in the regime, and such a deterioration of confidence may lead to political instability, which in itself may hinder economic development.

**Inter-Governmental Conflict**

Another criticism of multinational corporations concerns their ability to precipitate inter-governmental conflict. Multinational corporations have at times introduced, or at least provided the catalyst for, conflict between less developed countries, particularly less developed countries that are located in close geographical proximity, by generating competition between countries for new investment.

One of the factors which influence multinational corporations in making locational decisions, particularly if the investment is of such a nature that production is primarily for export to a third country, is the incentives offered by a country to attract the investment, e.g., tax incentives, liberal profit repatriation offers, etc. Multinational corporations have at times gone to a country and bargained with the country for tax breaks if they invested in the country. Then, after receiving an offer from the country, the multinational goes to another country and tries to get it to offer greater incentives than the first country. The multinational may then even return to the first country and try to persuade it to revise its offer in order to beat the offer of the second country. Negotiations of this sort, which are designed to play one country against another, are an obvious source of conflict between countries. In addition, by playing countries against each other, some multinationals have in the end been able to obtain terms that offered little direct benefit to the less developed country. In some cases, multinationals have been able to obtain agreements providing for up to twenty years of tax-free operation, 100 percent profit repatriation, and complete freedom in importing labor. In such cases, the benefit to the host country may be primarily limited to whatever net spread effects the investment creates.

**Balance of Payments Problems**

Few definitive statements can be made concerning the overall impact of multinational corporations on the balance of payments of less developed countries. Much of the discussion on this topic is based on intuitive reasoning and conjecture. Related studies have yielded results of limited usefulness since the definition of parameters has included only one part of the balance of payments, i.e., the trade

balance. While a study may show that multinational corporations have positively affected the trade balance of less developed countries, such a study has at best only limited usefulness, and in many cases, may be of less use than no study at all since it often lends to generalizations based on an incomplete picture. A positive trade balance effect may be more than offset by a negative effect in the capital account balance.

One of the few studies that has attempted a comprehensive study of the overall balance of payments effect of multinational corporations on the less developed countries is a study of the U.S. Tariff Commission. In *Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor*, the Tariff Commission analyzed the effect of multinational corporations on the current account, capital account, and overall basic balances ot less developed countries for the 1966-1970 period. The U.S. Tariff Commission concluded that «...the multinational corporations, in their dealings with their parent country, exerted a large and growing negative or adverse influence on host-country balances of payments during the periods covered.» [29]

While the Tariff Commission study has made substantial contributions to the analysis of multinational corporations and their effect on the balance of payments of less developed countries, additional information is needed before drawing final conclusions. The Tariff Commission study analyzes actual flows of funds and goods to and from the affiliate of the multinational corporation. Such an analysis, however, does not take into account the extent to which subsidiaries in the less developed countries contribute to import substitution. In other words, while the study looked at actual imports and exports, it did not attempt to look at what imports and exports would have been had the multinational corporation's subsidiary not been present. The magnitude of such an omission is not clear-cut. In *Sovereignty at Bay*, [30] Raymond Vernon provides an excellent discussion of the extent to which multinational corporations contribute to import substitution.

Vernon argues that although there is little doubt that multinationals often generate import-substituting effects «the truth about import substitution... probably varies from country to country» [31] and one might add, from industry to industry within a country.

But import substitution is not the only effect not considered in the U.S. Tariff Commission study. A comprehensive evaluation of balance-of-payments effects should include an examination of the long-run effect of multinational corporate investment on productivity and prices within the host country. Vernon shows that when the impact on productivity and prices is considered, the analysis becomes more complex. He states that «there is considerable evidence in many less developed economies that the institution of import -substituting industrialization has helped to elevate the level of internal prices and cumulatively to overvalue the nation's currency.» [32] As a result, «to the extent that foreign owned subsidiaries have contributed to the process of import substitution,» they have also

tended to raise prices, resulting in a negative effect on the balance of payments. [33]

But Vernon adds that the impact of multinational corporate investment on productivity tends to exert the opposite effect on the balance of payments. [34] Multinational corporate investment tends to increase the productivity of the factors of the country, which in time could express itself in a lower price level than would otherwise have existed, which in turn could mean a higher level of exports, and a resulting positive impact on the balance of payments.

From the preceding brief analysis it becomes obvious that the issue over the effect of the investment of multinational corporations on the balance of payments of less developed countries is complex and unresolved. Given that some of the factors that need to be included in a comprehensive examination are not precisely quantitatively measurable, and that the prodigious size of a study that would include all those factors that are measurable, the issue is likely to remain unresolved in the foreseeable future.

**Monetary Stability and Policy**

Multinational corporations have become highly skilled in forecasting foreign exchange risk and in protecting their assets against losses when balance-of-payments difficulties cause a country to devalue. The view that multinational corporations have an adverse effect on the stability of the international monetary system, and particularly on the efficiency of monetary policy in less developed countries, is becoming more widely recognized and accepted. Lawrence B. Krause says that in the spring of 1971, in response to relatively high interest rates in West Germany and the belief that the dollar was a candidate for devaluation, multinational corporations shifted a tremendous amount of funds from the United States to West Germany. He concludes that this decision by multinational corporations precipitated the floating of the deutsche mark on May 5, 1971. [35]

But in relation to monetary policy in less developed countries Krause expresses a number of concerns including the following :

> By joining capital markets, firms help spread economic impulses from one country to another. Furthermore, the independence of national monetary authorities is undermined. If the central bank tries to enforce tight money to fight inflation, firms borrow abroad and avoid the restraint. If the authorities try to stimulate their economy through easy money policies, they may have their efforts frustrated as firms utilize their liquidity to invest abroad for higher rates of return. Attempts by central banks to achieve domestic monetary objectives by exchange controls are also frustrated by multinational firms, which can transfer capital in different ways to avoid controls. [36]

Krause concludes that multinational corporations have been a «mixed blessing.» [37]

However, while it is probably true that multinational corporations have helped turn up the fire to 210 degrees under the already hot international monetary kettle, it is equally true that multinationals are not responsible for a major portion of the heat. This does not undermine the desirability of attempting to reduce the effect of the financial policies of multinational corporations on international monetary stability, but it indicates that to reduce the fire to an acceptable level, attention must be focused on other, more important fuels of the fire.

**The Welcome**

Protagonists of multinational corporate investment in less developed countries have advanced several possible benefits that multinationals offer less developed countries. Some of these benefits are examined in this section.

**Importation of Human Capital**

In the immediate post-World War II period, development theorists virtually ignored or underemphasized the human resource factor in economic development. This neglect may have resulted from the fact that «physical capital was measurable, and a capital-output relationship was given an apparent quantitative respectability. . . » [38]

But in recent years, human capital has reveived increased attention. Schultz, in his presidential address to the American Economic Association in 1960 states :

> The failure to treat human resources explicitly as a form of capital, as a produced means of production, as the product of investment, has fostered the retention of the classical notion of labor as a capacity to do manual work requiring little knowledge and skill, a capacity with which, according to this notion, laborers are endowed about equally. This notion of labor was wrong in the classical period and it is potently wrong now. [39]

In a recent book, *Human Resources as the Wealth of Nations*, Harbison emphasizes the shortage of human capital in less developed countries in a chapter entitled, «The Problem of the Balance of Brains.» [40]

But, if a less developed country has an insufficiency of brain-power in the form of technicians, scientists, managers, professionals, and entrepreneurs, how is it to acquire or devclop the needed brainpower. Some advance the position that, at last for some brainpower needs, the government can substitute for market insufficiency, e.g., the government of Japan serving the role of the needed entrepreneurship. Others advocate long run development of educational institutions. McClelland has advocated workshops in which he feels n-achievement, in his catena a vital link to entrepreneurship and thus, economic development can occur. [41] An alternative to these methods, although not a mutually exclussive one, is the

importation of high-talent manpower. In this area, many have argued that the multinational corporation offers potential benefits. Multinational corporations engaged in commerce, manufacturing, mining, banking, or other activities may import high-talent manpower from their parent country. Many multinationals import talent to perform tasks which local nationals cannot undertake. Multinationals frequently import managers, engineers, and supervisors, as well as technicians to show local nationals how to install and operate complicated equipment and machinery. [42]

The importation of human capital is not, however, without costs. Imported managers are often paid salaries greater than their foreign counterparts. [43] This salary differential is often a source of irritation to local national managers. Another cost lies in the area of the amount of salary that remains in the country. Imported managers tend to keep a smaller percentage of their income in the country than local nationals do.

Perhaps the biggest problem of importation of high-talent manpower is in the area of temporary versus permanent reliance on imported manpower.

In actual practice, many less developed countries have developed a reliance on foreigners to perform essential economic tasks. Once imported, expatriate managers are only infrequently replaced.

In an attempt to overcome this tendency toward reliance on expatriate manpower, and to protect local nationals and expand the employment of local nationals, many less developed countries have adopted legislation which specifies that a set percentage of each salary group be local nationals. Such legislation is often accompanied by the utilization of work permits to regulate the temporary importation of manpower. [44] While such laws are prevalent in less developed countries, their enforcement is not widespread. Where such laws exist and are enforced, problems have sometimes arisen. A Conference Board study has shown that in countries where stringent employment legislation exists and where an inadequacy of skilled manspower is prevalent, many multinationals have ruled out the country from their investment consideration. [45] On the other hand, some multinational corporations operating in this milieu have begun training programs for local nationals. Some have tried to lessen this manpower shortage by bringing locals to the home country for training. In other cases, training programs have been developed within the foreign country. A program for development of local nationals is one way in which the multinational corporation may help less developed countries at least partially offset a skilled manpower shortage.

**Transport of Marketing Institutions**

Marketing has, according to some development economists, been a neglected aspect of the process of economic development. Many of the so-called partial theories of economic development have focused almost exclusively on analyzing aggregate magnitudes, and on developing techniques for increasing production

and productive efficiency. Most of them seem to assume, at least implicitly, that supply will create its own demand, i.e., that Say's Law works in less developed countries. On the other hand, Nurske,[45] Anderson[47] and Higgins,[48] to mention a few, question this apparent underemphasis of the role of the market.

In his pioneering 1958 article, Peter F. Drucker stressed that the development of marketing «makes possible economic integration and the fullest utilization of whatever assets and productive capacity an economy already possesses .[49]

Multinational corporations offer the potentiality of transfer of marketing institutions and skills. Stanley Hollander summarized the advantageous effects a multinational corporation, and in particular a multinational retailer, may have in a less developed country in stating that :

> ....the success of the imported firm would have far-reaching demonstration, educational, and competitive impacts upon the indigenous storekeepers and hence the new merchant's impact upon price levels would reach far beyond their own sales counters; large scale retailers...would reach back and help rationalize local production; and the availability of desirable merchandise at reasonable prices in both new and old stores would have an important effect upon the indigenous labor force.[50]

Rostow emphasizes the importance of new marketing institutions «in breaking down the Chinese wall between urban and rural life in developing countries and in assisting in the creation of national markets.»[51]

Probably one of the most frequently cited examples of the beneficial spread effects of a multinational corporation is that of Sears, Roebuck and Company. In this vein Peter Drucker declared :

> The greatest impact Sears has had, however, is in the multiplication of new industrial business for which Sears creates a marketing channel. Because it has had to sell goods manufactured in these countries rather than import. them (if only because of foreign exchange restrictions), Sears has been instrumental in getting established literally hundreds of new manufacturers making goods which, a few years ago, could not be made in the country, let alone be sold in adequate quantity. Simply to satisfy its own marketing needs, Sears has had to insist on standards of workmanship, quality and delivery-that is on standards of production management, of technical management, and above all of the management of people-which, in a few short years, have advanced the art and science of management in these countries by at least a generation.[52]

The efficiency of importation of marketing institutions *via* multinational corporations is, however, subject to certain reservations. The implication that the less developed countries need to import the marketing institutions of the de-

veloped countries, particularly the United States, through multinational corporations in order to promote economic development is a generalization of questionable validity. For instance, the statement assumes that the economic development of the less developed countries will be optimally facilitated by utilization of the private market mechanism as the predominant instrument of development policy. It further assumes that the particular marketing institutions of the United States are optimally appropriate to the less developed countries. Both assumptions are oversimplifications and overgeneralizations. While in many cases importation of private marketing institutions of the type existing in the United States may facilitate development, in other cases other institutional arrangements may work just as well, if not better. For economic development can occur within a wide range of different political, social, and economic institutions. Rather than the generalization that less developed countries need to import the private market institutions of the United States, a more appropriate conclusion would be that less developed countries need to take an inventory of their existing resources, values, and institutions, and then attempt to utilize the mix of institutions appropriate to their own particular situation.

**Import Substitution**

As was indicated in the section on the balance-of-payments effects, one of the advantageous aspects of investment by multinational corporations is that it may contribute to the process of import substitution. Less developed countries, after determining the target areas of an import substitution program, may offer special incentives to foreign firms to invest in those target areas. *Ceteris paribus*, the replacement of importation by local production, will result in greater accumulations of foreign exchange which the country can use in its development programs.

However, while an import substitution program in theory offers potential benefits, operationalization of such a program may have deleterious effects. Import substitution programs are in practice frequently associated with protectionism which tends to foster productive inefficiency and misallocation of resources. Also, protectionistic policies are easier in practice to implement than to remove and thus what may be viewed as temporary measures often become permanent.

**Transfer of Capital and Technology**

One important potential benefit of the multinational corporation is the extent to which it increases the availability of capital and applicable technology.

Private foreign capital may make a major contribution. If foreign exchange is a major constraint on growth, foreign capital may help break this bottleneck. Also, as Robuck and Simmonds note, «to the extent that the inflow of resources consists of 'missing resorces', they may complement and effectively 'increase'

the supply of local factors heretofore idle or less productively used.»[53] If this is the case, «the resource transfer effect may be both the net addition from the outside as well as the net increase in the effective value of domestic resources.»[54]

The multinational corporation also offers the less developed country the transfer of technology. New products, processes, and techniques may be brought in by the multinational corporation. The multinational corporation can function as a mechanism for the international transfer of technology that goes beyond the mode of international technological diffusion through imitation.[55] The potentiality of this characteristic is particularly great in less developed countries where the capacity of local enterprises to imitate technology is limited. Initial transfer of technology to the less developed countries may also have the benefit of directly stimulating innovation and production in related industries.[56] As well, multinational corporations may also indirectly stimulate technological developments in less developed countries by creating new markets, by encouraging local companies to emulate them (positive demonstration effect), and by forcing local companies to innovate in order to be able to withstand competition.[57]

The transfer of technology to less developed countries is, however, subject to many constraints. Development of production processes and product lines appropriate to the small markets of the less developed countries often requires major and costly adaptations. It has been alleged that some multinationals, rather than make costly adaptations, have transferred technology to the less developed countries that are less than optimally efficient. To the extent that this occurs, transfer of technology may result in misallocation of resources. The costs of this misallocation will depend on the differential between the marginal productivity of the resources used in conjunction with the imported technology, and the marginal productivity of these resources in alternative uses. If the opportunity costs of these resources in other uses is low, although the imported technology may not be the most efficient, it may still result in net benefit.

**Conclusions**

This study has underscored that multinational corporations in the less developed countries involve costs as well as benefits. An appraisal of their possible contributions to development must take under account other alternative means to the road of development. For example, the profit repatriation of multinational corporations may exert a negative effect on the host country's balance of payments, but is the negative effect as great as that of servicing a development loan? Multinational corporations may create instability in the host country's currency, but is the instability effect as great as the effect of inflationary financing of development on currency instability? Multinational corporations may create jealousies and conflicts between governments, but how much greater is this effect than the effect of allocation of aid in greater quantities to select countries? Multinational

corporations often have political costs, but what are the political costs of reliance on heavy taxation?

Until these questions, and many others, have been answered, a categorical statement concerning the efficacy of multinational corporations in Third World development cannot be given. As an increased number of development experts have stressed, each country is in many ways unique. And since each company also possesses unique attributes, it is doubtful that the question, «What price multinational corporations in Third World development?» will ever be answered conclusively.

Given the relatively limited data now available, the uniqueness of every country, and the uniqueness of every multinational corporation, probably the best policy that can be suggested to less developed countries is to approach the multinational corporation question with some caution (since it does involve costs, sometimes large in scale), but not to exclude it from consideration (since it does offer benefits, sometimes large in scale). Reliance on multinational corporations as the major instrument of economic development is probably not an appropriate strategy. Taking an inventory and making an analysis of a given country's values, institutions, and resources, and then formulating development strategy based on a mix of the alternative means of resource mobilization is a most realistic approach.

Not to be neglected by the less developed country is, of course, consideration of ways of reducing the costs of multinational corporations, while still obtaining the benefits private foreign investment offers. Another means of mobilization of foreign resources, joint ventures, appears to hold potential in this area.

In the final analysis, concerning the role of the multinationals in the Third World, overgeneralization can lead to inappropriate conclusions and to policies of inoptimality. Multinationals, such as United Fruit in the 1950's, exist whose profits can be viewed as exploitative, whose political costs are great, and whose net benefit to less developed countries is small, if not negative. But, on the other hand, other multinational companies attempt to develop a level of mutuality of interests and commonality of goals so that they will contribute to the economic development objectives of the less developed countries. A good example of this may be Sears, Roebuck, and Company in Latin America. Perhaps its good image stems primarily from its profit-sharing program and its extensive efforts to develop local industry. Thus, it appears that the survival and effectiveness of the multinationals in the Third World depends in no small measure on their ability to be flexible and to convince their host countries, in the face of a «strategic materials crisis,» that a mutuality of interests exists and that it can lead to a constructive and cooperative relationship of lasting benefit to both sides. Given the present international climate, this is no small task.

## FOOTNOTES

1. *Survey of Current Business*, November 1954.
2. *Survey of Current Business*, October 1970.
3. *Survey of Current Business*, November 1972.
4. «Mutlinationals Ride a Rougher Ride,» *Business Week* (December 19, 1970), p. 58.
5. Stefan H. Robocks and Kenneth Simmonds, *International Business and Mutlinational Enterprises* (Homewood, Illinois : Richard D. Irwin, Inc., 1973), p. 45.
6. J. J. Servan-Schreiber, *The American Challenge* (New York : Athenaum, 1968).
7. Harold Wilson, *EFTA Reporter* (January 9, 1967), p. 14.
8. Seyom Brown, «A Study of Conglomerate Powers that Transcend Nations,» review of *Transnational Relations and World Politics*, by Robert O. Keohane and Joseph S. Nye, Jr., in the *Saturday Review*, (May 20, 1972), p. 65.
9. Jonathan F. Galloway, «Worldwide Corporations and International Integration,» *International Organization*, Vol. 26, No. 3 (Summer, 1972), p. 510.
10. George A. Steiner and Warren M. Cannon, *Multinational Corporate Planning*, (New York : Macmillan, 1966), p. 4.
11. Dennis M. Ray, «Corporations and American Foreign Relations,» *The Annals of the American Academy of Political and Social Science*, Vol. 403 (September, 1972), p. 88.
12. David S. McLellan and Charles E. Woodhouse, «Businessmen in Foreign Policy,» *Social Science Quarterly*, Vol. 35 (March, 1959), p. 285, as cited by Ray, «Corporations and American Foreign Relations,» *loc. cit.*
13. Richard Barnet, «The National Security Managers and the National Interest,» *Politics and Society* (February, 1971), p. 260, as cited by Ray, «Corporations and American Foreign Relations,» *loc. cit.*
14. *Ibid.*
15. Daniel T. Stanley, *et. al.*, *Men Who Govern* (Washington : Brookings Institution, 1967), p. 141, as cited by Ray, «Corporations and American Foreign Relations,» *op. cit.*, pp. 88-89.
16. Ray, *op. cit.*, p. 91.
17. William Domhoff, «Who Made American Foreign Policy, 1945-1963?» in Horowitz, *Corporations and the Cold War*, as cited by Ray, «Corporations and American Foreign Relations,» *op. cit.*, pp. 87-88.
18. «1970 Annual Profitability Study,» *Business International* (June 18, 1971).
19. *Survey of Current Business* (October, 1970).
20. «Global Companies : Too Big to Handle?» *Newsweek*, Vol. 80, No. 21 (November 20, 1972), p. 96.
21. Harry Magdoff, The Age of Imperialism : *The Economics of U.S. Foreign Policy* (New York : Monthly Review Press, 1969), p. 193.
22. Jack N. Behrman, *National Interests and the Multinational Enterprise* (Englewood Cliffs, New Jersey : Prentice-Hall, Inc., 1970), p. 32.
23. Brown, *op. cit.*, p. 64.
24. G. Modelski, «The Corporation in World Society,» *Yearbook of World Affairs*, 1968, edited by George W. Keeton and George Schwarzenberger (London : Steven and Sons, 1968),

p. 74 as cited by Jonathan F. Galloway, «Worldwide Corporations and International Integration,» *International Organizations*, Vol. 26, No. 3 (Summer, 1972), pp. 510-511.

25. Robert O. Keohane and Van Doorn Ooms, «The Multinational Enterprise and World Political Economy,» *International Organization*, Vol. 26, No. 3 (Summer, 1972), p. 112.

26. *Ibid.*, p. 99.

27. John M. Culbertson, *Economic Development* (New York : Alfred A. Knopf, 1971), pp. 226-227.

28. Claude McMillan, Jr., Richard F. Gonzales, and Leo G. Erickson, *International Enterprise in a Developing Economy* (East Lansing, Michigan : The Michigan State University Press, 1964), p. 45, cited by John Fayerweather, *International Business Management* (New York : McGraw-Hill Book Company, 1969), pp. 110-111.

29. *Implications of Multinational Firms for World Trade and Investments and for U.S. Trade and Labor*, Report to the Committee on Finance of the United States Senate (February, 1973), p. 212.

30. Raymond Vernon, *Sovereignty at Bay* (New York : Basic Books, Inc., 1971), p. 175.

31. *Ibid.*

32. *Ibid.*

33. *Ibid.*

34. *Ibid.*

35. Lawrence B. Krause, «The International Economic System and the Multinational Corporation,» *The Annals of the American Academy of Political and Social Science*, Vol. 403 (Sepptember, 1972), p. 100.

36. *Ibid.*

37. *Ibid.*, p. 93.

38. Frederick Harbison and Charles A. Myers, *Education, Manpower, and Economic Growth* (New York : McGraw-Hill Book Company, 1964), p. 4.

39. Theodore W. Schultz, «Investment in Human Capital,» *The American Economic Review*, Vol. 51, No. 1 (March, 1961), p. 3.

40. Frederick H. Harbison, *Human Resources as the Wealth of Nations* (New York : Oxford University Press, 1973), Chapter 5.

41.. David McClelland, «Toward A Theory of Motive Acquisition,» *American Psychologist*, Vol 20 (1965), pp. 321-333 and David McClelland, «Achievement Motivation Can Be Develoepd,» *Harvard Business Review* (November-December, 1965), pp. 23 and 178.

42. Harbison, *op. cit.*, p. 101.

43. Jon Basil Utley, «Doing Business with Latin Nationalists,» *Harvard Business Review* (January-February, 1973), p. 81.

44. Richard N. Farmer and Barry M. Richman, *International Business : An Operational Theory* (Homewood, Illinois : Richard D. Irwin, Inc., (1966), p. 135.

45. *Obstacles*, Vol. 1 : *Obstacles and Incentives to Private Foreign Investment*, 1967-1968 (New York : The Conference Board, Inc., 1969), p. 4,

46. Ragnar Nurske, *Problems of Capital Formulation in Underdeveloped Countries* (Oxford : Basil Blackwell, 1953), p. 4.

47. Dole A. Anderson, *Marketing and Development : The Thailand Experience* (East Lansing, Michigan : Institute for International Business and Economic Development Studies, Michigan State University, 1970), p. xvii.

48. Benjamin Higgins, *Economic Development* (New York : W.W. Norton and Company, 1959), 769.

49. Peter F. Drucker, «Marketing and Economic Development,» *Journal of Marketing*, Vol. 22 (January, 1958), p. 253.

50. Stanley C. Hollander, *Multinational Retailing* (East Lansing, Michigan : Institute for

International Business and Economic Development Studies, Michigan State University, 1970), p. 4.

51. Walt W. Rostow, «The Concept of a National Market and Its Economic Growth Implications,» in *Marketing and Economic Development*, Peter D. Bennett, ed. (Chicago : American Marketing Association, 1965), p. 17.

52. Drucker, *op. cit.*, pp. 257-258.

53. Robock and Simmonds, *op. cit.*, p. 156.

54. *Ibid.*

55. Franklin R. Root, *International Trade and Investment* (Third Edition; Cincinnati : Southwestern Publishing Company, 1973), p. 560.

56. See Jack Baranson, «Transfer of Technical Knowledge by International Corporations to Developing Countries,» *American Economic Review, Papers and Proceedings* (May, 1966). pp. 260-261.

57. James B. Quinn, «Technology Transfer by Multinational Corporations,» *Harvard Business Review* (November-December, 1969), pp. 152-154.