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TRANSNATIONAL CORPORATIONS AND DEVELOPING COUNTRIES: SOME ISSUES IN INDUSTRIAL POLICY

by
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TRANSNATIONAL CORPORATIONS AND DEVELOPING COUNTRIES: SOME ISSUES IN INDUSTRIAL POLICY

Samuel Paul

Transnational Corporations (TNCs) have been the target of considerable hostility and criticism around the world in recent years. They have been accused of political interference in the countries in which they operate, corrupt and restrictive business practices, thwarting the goals and policies of governments and challenging the sovereignty of national states. Governments of both "host" and "home" countries have been actively engaged in devising new policies and regulatory measures to deal effectively with TNCs and to monitor and control their operations. The call for a New International Economic Order, which has attracted considerable public attention of late, has brought into sharp focus the concerns of the developing countries in this regard and their intense desire to be equal partners in the design of an equitable world economy. The international deliberations and interventions which have been organised and promoted under the auspices of the United Nations in recent years are a direct consequence of this development. The role of TNCs has figured prominently in these discussions[1].

The rising storm of hostility that has strick the TNCs in the Seventies stands in sharp contrast to the wave of euphoria and optimism that swept the Sixties when TNCs were hailed by many western observers and scholars as a powerful engine of development and a major force for rationality and efficiency on the international economic scene. The combination

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1. United Nations, <u>Multinational Corporations in World Development</u>, New York, 1973.

of capital, technology and management, and access to markets that TNCs offered to the dev loped and developing countries appeared to be both unique and innovative in the context of their needs. TNC operations around the world expanded at a fast pace during this period and most governments did not consider it necessary to intervene in or regulate their activities and practices. Impressed by the phenomenal spread of TNCs world wide, influential observers even predicted the demise of the nation state as an economic unit[2].

The marked shift in public attitudes towards TNCs that emerged in the early Seventies has given a rude shock to the naive thesis that the globalisation of economic activities through the medium of TNCs is the answer to the complex problems of world development. The conflict between TNCs and nation states which have surfaced in the past few years bear eloquent testimony to the limitations of the approach implicit in this thesis. There is considerable evidence to show that the international integration of economic activities through the unfettered operations of TNCs with no longer be acceptable to most countries today, just as the plea for free trade did not receive much international support in a previous era, for very similar reasons[3].

It is against this backdrop that the efforts under way, at national and international levels, to cope with the problems posed by TNCs activities should be viewed. National responses

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2. C.P. Kindleberger, American Business Abroad: Six Lecture on Direct Investment, New Haven, 1969, p. 207.

3. Penrose, "The State and Multinational Enterprises in Less Developed Countries", in Dunning (Ed). The Multinational Enterprises, London, 1971, pp. 221-238.

to these problems have varied from nationalisation and take over of TNCs at one extreme to the formulation of new policies and a code of conduct to regulate their behaviour. At the international level, the approach of the United Nations represents an endeavour to minimise the negative aspects of TNCs and enhance the positive aspects of their contribution to development. Towards this end, the United Nations Commission on Transnational Corporations has initiated a series of interventions. Firstly, the Commission is currently engaged in the formulation of a code of conduct for the TNCs. Secondly it plans to develop a comprehensive information system on the activities of TNCs. Thirdly, the Commission has, through the UN Centre on Transnational Corporations (CTC), initiated a programme of technical cooperation to strengthen the negotiating capacity of developing countries. The range of issues and measures involved in dealing with TNCs thus covers a very wide spectrum indeed.

Though the proposals for action and policy interventions at the international level have much greater visibility, it is no exaggeration to say that the crucial determinant of the affectiveness of governments in dealing with TNCs will be their ability to evolve and pursue appropriate strategies for this purpose with vigour. First of all, most of the action takes place at the national level, and direction, monitoring and control of TNC activities cannot take place without the active involvement and understanding of the state. Secondly, the expansion and influence of TNCs around the world are, to a large extent, due to their well planned strategies and organisational strengths which have been amply documented[4].

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4. See Stopford and Wells, Managing the Multinational Enterprise, London, 1972, Barnet and Muller, Global Reach: The Power of the Multinational Corporations, New York, 1974.

It is being increasingly realised today that the public institutions of nation states have lagged behind in fully comprehending the consequences of TNC strategies and evolving and initiating policy interventions to minimise their negative effects.[5] This failure has been even more serious in the case of the developing countries. There is no doubt that if the governments of developing countries recognise this failure and formulate conscious strategies to deal with TNCs, they could improve their ability to minimise the negative effects and segment the positive contribution of TNC operations.

Thirdly, interventions at the international level will not go far if the strategies of nation states are weak and their ability to pursue them is limited. The interventions at the international and national levels are complementary and must converge if optimal results are to be achieved. The declaration on TNCs which has been prepared and promoted by the Organisation for Economic Cooperation and Development (OECD) is an example of a collective endeavour which has derived its legitimacy and strength from the support and effective action of the more developed countries which in turn have the ability to formulate and implement their own strategies, keeping in view their collective interests. TNCs are not the subjects of international law. Therefore, it is only through national legislation that even international agreements and interventions in relation to TNCs could be made to work. Thus, an important pre-requisite for the success of the proposed efforts of the United Nations with respect to TNCs is the capability and willingness of member states, especially the developing countries, to formulate clear objectives and policies to guide their transactions with TNCs.

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5. Apter and Goodman (Ed), The Multinational Corporation and Social Change, Praeger, 1976, chapter 7.

The development of this capability in the poorer countries is an uphill task, given the conflicting and shifting goals and interests which dominate the scene, their relatively weaker professional and technological manpower base and the limitations of their administrative systems. Yet, it is a task that deserves the highest priority for the reasons mentioned above. The purpose of this paper is to examine some issues of a strategic nature which are relevant to the strengthening of this capability in developing countries. We shall analyse these issues, however, against the backdrop of the recent world trends in TNC growth, and the factors which have aggravated the tensions between TNCs and nation states.

I. Growth Trends and Sources of Tension

An analysis of the growth trends of TNCs in the Seventies reveal four important features which developing countries should take into account in planning their strategies towards TNCs.

(1) The direct investment stock of TNCs on a world wide basis increased from $105 billion in 1967 to $158 billion in 1971 and $287 billion in 1976. The stocks of direct investment of TNCs have grown at about the same rate as the gross national product of developed countries[6]. Though this represents a significant record of growth, the traditional countries of TNC origin such as the USA, U.K. and France expanded their foreign operations less rapidly in the Seventies than newer TNC home countries such as the Federal Republic of Germany, Japan, Switzerland and several other smaller countries.

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6. The analysis in this section is based largely on United Nations, Transnational Corporations in World Development: A Re-examination New York, 1978.

Equally noteworthy is the growing tendency for smaller corporations in many developed countries to go transnational. Socialist countries and some developing countries have also ventured out into the transnational corporations' arena.

(2) Of the direct investment stock of TNCs, only a quarter has been invested in the developing countries, and this share has declined in recent years. Further, most of this investment is concentrated in a few countries rich in mineral resources and others which are the more industrialised among the developing nations. TNC operations are heavily concentrated in the high income, developed countries, and minimal in the least developed countries. The primary focus of the larger, technology intensive TNCs has thus been on the rich foreign markets like those in their home countries.

(3) While the dominant trend in the Sixties was the establishment by TNCs of wholly owned subsidiaries, the Seventies have been marked by the advent of joint ventures and diverse non equity arrangements. Licensing, technical collaboration and management contracts, in addition to joint ventures, have transformed the landscape of TNC operations and organisational forms in recent years, with important consequences for the strategy and control of parent companies. These new arrangements have also rendered the conventional measure of TNC growth in terms of direct investment rather inadequate.

These changes are reflected in the growing international trade in technology, which has far surpassed the growth rate of direct investment. From $2.7 billion in 1967, payments for technology have increased to a staggering $11 billion in 1975. Most of these transactions have taken place among fourteen developed countries. Joint ventures, licensing and similar arrangements have also become increasingly popular between western TNCs and the Socialist countries of East Europe. The number of industrial cooperation agreements between these two groups has increased significantly from 600 in 1973 to 1800 in 1976.

(4) A direct consequence of the features outlined above is the increasing competition that has begun to characterise the operations of TNCs. The widening of the range of source countries from which TNCs spring, the increased number of medium and smaller corporations from several countries including the East European Socialist bloc and developing countries which are venturing into transnational operations, and the growing use of a variety of equity and non-equity arrangements are factors which could be used with advantage by developing countries which have to deal with TNCs. However, against the potential for increased competition on the supply side, host countries will have to reckon with the increasing size of the larger TNCs and their consequent tendency to integrate and control their operations worldwide. Both these developments have important implications for the strategies of developing countries.

The accelerated growth and expansion of TNCs have undoubtedly been facilitated by the unprecedented shrinkage in international space which has occurred in the past couple of decades. New and speedy modes of international travel, communication and related technologies such as computerisation have brought about a new sense of interdependence among nations and provided new opportunities for enterprises to expand outward from their home countries. However, the same forces which nurtured the growth of TNCs have also aggravated the tensions arising out of their operations in interdependent states.[7]

A TNC is subject to three sets of influence. First and foremost, it has its own global strategy of specialisation and integration into which its affiliates in different countries must fit. Secondly, the home country in which the headquarters of the TNC is located will have an influence on its operations. Finally, the host countries in which its affiliates are located will attempt to influence its activities. The prime source of the tensions betwewn TNCs and nation states lies in the multiple jurisdictions and consequent pulls in different directions implicit in this arrangement which in turn are due to the obvious lack of congruence in the goals of the parties involved. In more specific terms, the sources of tension are threefold:

(1) Through the medium of TNCs, models and patterns of industrial development and technologies tend to be transmitted to host countries which are not in harmony with their preferences, needs and cultures. Products which cater to the small, but rich elites in these countries, technologies which seem inappropriate and incapable of meeting the basic needs of their masses and TNC conduct and practices which are alien to the values of the local people have been sources of tension in several countries.

7. R. Vernon, "Storm over the Multinationals: Problems and Prospects", Foreign Affairs, January, 1977, p. 244.

(2) Host countries have felt concerned that TNCs were unmindful of their objectives and have thwarted their policies in their singleminded pursuit of pre-determined global strategies. Government of poorer countries which are increasingly planning and setting priorities for their developed face such conflicts more often than others.

(3) Governments, especially those of developing countries, have felt threatened by the direct and indirect interference of TNCs in their internal affairs. Political involvement of TNCs and their intrusion into internal affairs of host countries through the "extra-territorial application" of home country policies have had the effect of compromising the autonomy and sovereignty of the host country.

Of these, the threat to national objectives and sovereignty has been the primary source of conflict between TNCs and nation states. Much of the national and international action which countries have initiated in recent years has been motivated by a strong desire to eliminate this conflict. As developing countries become more purposive in the directions they set for their future development and more sensitive to the preservation of their autonomy, such tensions are bound to increase. The closing of certain sectors of the economy to foreign investment and the take over of foreign onwership in critical industries are illustrative of the national responses to these tensions.

II Developing Country Strategies

The "strategy" of an organisation refers to the course of action it adopts to achieve specified policy objectives, consistent with its resources and constraints. The policies and courses of action, whether fully articulated or not, that many developing countries have adopted in relation to TNCs, have for the most part been heavily influenced by the tensions and conflicts discussed above. The two critical components of national strategies which are most frequently encountered in developing countries are the delineation of sectors or industries open to TNCs and the degree of foreign equity ownership or participation permitted in specified sectors[8]. The first policy guideline attempts to direct TNCs into preferred and possibly high priority industries in the economy. TNCs are thus being asked to conform to the objectives and priorities of the development of the country. The second policy guideline, through the restrictions placed on foreign equity participation, attempts to dilute the control of TNCs over national activities. It represents an indirect effort to reduce the TNC propensity to question or violate the sovereignty of the state and thwart national goals and policies. Though the details may vary, the twin objectives implied in the strategies of most developing countries are maximising the achievement of national development goals and priorities, and minimising the threat to national sovereignty and autonomy.

The processes used in implementing these strategies are less similar. Many countries, including developed countries, have industrial policy statements which spell out special guidelines for TNCs and other foreign investors. Several countries have central screening agencies which evaluate, and approve foreign investment, technology purchase and transfer proposals.

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8. United Nations, <u>op.cit.</u> pp. 182-89

Some countries have multiple agencies dealing with different aspects of approvals. TNC responses in most cases are obtained through the efforts of local partners and government officials concerned with the relevant industries. The primary concern of most countries has been with the enforcement of the conditions of entry of TNCs.

Determinants of National Strategy

Though developing countries have much in common, they do not by any stretch of imagination, constitute a homogenous lot. They differ in the levels of overall development and industrialisation, resource endowments, technological base, national goals and development strategies, and political ideologies. It is not, therefore, meaningful to talk about a uniform national policy in relation to TNCs that all developing countries could be expected to adopt. However, it is in the interests of all to formulate and implement their industrial policy, taking into account the major factors that influence their bargaining power.

Ideally, a developing country should build into its strategy towards TNCs the full implications of the opportunities and constraints generated by the following five factors:

(1) the objectives and preferences of the country in respect of foreign investment and technology,

(2) the resources and level of techno-management skills in the country,

(3) TNC strategies;

(4) home country policies and attitudes;

(5) competition from other host countries.

Among these, the first two are endogenous factors for the host country whereas the other three are exogenous in nature and largely beyond the control of the country. Similarly, the first three are the more decisive determinants in contrast to the remaining two which set the limits within which a country can manoeuvre.

1. National Objectives

A country's attitudes towards foreign investment, products and technology are derived for the most part from its political and social ideology. Policies in respect of foreign ownership and control, and technology preferences are moulded by these attitudes and the compulsions of the development strategy of the country. In the developing world, there are three areas in which the objectives of a country will have a direct bearing on TNC activities. These relate to the country's desired pattern of production, desired degree of national control over economic activities, and desired types of technology. These objectives are usually articulated in the industrial policy of the country. In reality, different nations tend to pursue different combinations of these objectives which in turn will have important implications for the countries' transactions with TNCs. Examples of some alternative choices could be used to illustrate this point. Thus, the desired pattern of production may be designed to serve the goal of elitist (benefiting the high income group) consumption or of mass consumption (benefiting the low income majority). The desired degree of national control over TNCs may be high or low. The desired type of technology may be capital intensive and more advanced, or mature, and more labour intensive.

A country may wish to pursue an elitist consumption path, exercise strong national control and import advanced technology. Another country might wish to pursue a mass consumption path, exercise strong national control and import less advanced, but more labour intensive technologies.

It so happens that of the three areas relevant to the national objectives, only the first two fall within the purview of the country's initiative. The third, namely, technology, will depend on the response of TNCs. As will be argued below, TNC strategies are influenced by considerations of ownership and control. Once the pattern of production and degree of control are determined, TNCs will tend to offer the kind of technology that is consistent with the degree of control envisaged by the country. Therefore, the technology objective that a country sets for itself should be consistent with its production and control objectives.

Experience in many countries shows that elitist consumption which calls for high income goods, when coupled with the desire for strong national control over TNCs may be inconsistent with a country's desire to acquire advanced technologies generally monopolised by a few TNCs. The country might still get access to high income goods of an older vintage, based on less advanced or mature technologies. If the national propensity to control is weak, there is a greater chance that, as part of the import substitution process, TNCs with advanced technologies will come in and produce high income goods of a more recent vintage!

In the case of a country that prefers production for mass consumption, the degree of control desired does not seem to affect its technology objective in the same fashion. This is because most of the technologies which are capable of delivering low income goods through the medium of TNCs are the less advanced, mature technologies.

It so happens that these are the relatively less capital intensive technologies which in turn reinforces the development strategy of the country. The more sophisticated technologies of TNCs are generally not geared to meeting the consumption needs of the low income masses of developing countries. Basically, these are technologies designed to meet the needs of the more affluent countries and match the factor endowments of those countries. It is most unlikely that TNCs will undertake the research, development and product innovations needed to meet the basic needs of developing countries as the commercial viability (market size, profitability, etc.) of the proposition is very much in doubt.[9] Advanced technologies have certainly been successfully applied to meeting some of the basic needs of the poorer societies, but the initiative, for the most part, came from public, non-profit organisations and international agencies, some of which have achieved remarkable breakthroughs in agriculture, medicine, population control, etc.[10]

Perhaps it is pertinent to add that the reference here is to the technologies relevant to sectors of production catering to the country's deomestic market. Where global (export) markets are the primary target of a developing country, the issue of elitist versus mass consumption becomes less relevant.

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9. See Apter and Goodman (Eds), op.cit., chapter 8.

10. These new technologies based on modern scientific and developmental work are certainly more impressive than the results of the work on intermediate technology. It is doubtful that any country would reject the import of modern technology wholesale on the basis of the expectation that indigenous, intermediate technology would be available within a reasonable time span. It is more likely that countries will import the more mature technologies, and improve and adapt them through indigenous R&D.

In such cases, it is necessary to distinguish between the technology and management requirements of the export sector as against those of the domestic market. Thus a country which has minerals or other rawmaterials in great demand internationally may well import advanced technologies for the development of that sector and yet go far more mature technologies in other sectors meant for domestic consumption. Similarly, it is well known that some of the items of elitist consumption are also labour intensive. We are, however, concerned with certain dominant tendencies in the development and uses of technology which tend support to the propositions being advanced in this paper.

Careful orchestration of objectives, then, is an important consideration in the formulation of policies towards TNCs. In their strategic planning, developing countries should bear in mind that under the prevailing international conditions, they cannot pursue their production, control and technology objectives without internal consistency. It is only when the priority is for meeting mass consumption needs (consumer and capital goods as well as public services and infrastructure) that the objectives of exercising strong national control and acquiring the more appropriate, relatively more labour intensive technologies could be reasonably met. This finding has some important implications for developing country strategies towards TNCs.

2. National Resources and Techno-managerial Skills

The unique resources a country has in terms of capital, raw materials, large markets and techno-managerial skills are certainly a crucial determinant of its bargaining power. Its resource strengths will enable the developing country to vary the mix of capital, technology and management desired from TNCs in its favour. Availability of capital gives the country leverage in its bid to reduce foreign ownership within its jurisdiction. However, there is ample evidence to show that indigenous majority ownership by no means gurantees effective national control.

Unless the country's techno-managerial skills are of an adequate order, de facto control will continue to rest with the TNCs. Thus, it is said that Indonesia was able to eliminate foreign ownership from its mineral based enterprises. However, the effective management and control of these enterprises continued to remain with the TNC techno-managers assisting them as Indonesia did not possess adequate skills in this area[11]. The development of these skills and "learning by doing" should receive high priority in countries which desire greater national control.

The experience of the Socialist countries of Eastern Europe in dealing with Western TNCs, on the other hand, shows how the former have been able to successfully acquire technology or enter into joint ventures because of their strong capital and techno-managerial base. They have been able to bargain effectively with TNCs and establish continuing relationships which have been satisfactory to both sides. In an earlier era, the success that Japan had in acquiring and developing technology while minimising foreign investment is also attributed to the same combination of strengths. In Japan's case, of course, it is claimed that consumption levels were deliberately suppressed during this period in order to generate the capital required [12]. Obviously, the national determination to achieve the goal of self-reliance and the commitment and attitudes of the Japanese people played a key role in their success story.

Our conclusion on this point is that the ability of a country to attain effective control over TNCs will be greater if it has a strong combination of capital and techno-managerial skills. Indigenisation of ownership goes only part of the way. The ability to acquire and manage new technologies which is at the heart of effective control will depend on the degree of indigenous technical expertise and managerial competence.

11. United Nations, op.cit. pp. 103-112.
12. Apter and Goodman (eds), op.cit., chapter 5.

The acquisition of this competence and experience calls for deliberate, long term planning and sustained state support.

3. TNC Strategies

The most important exogenous influence that developing countries will have to contend with in evolving their policy towards TNCs is the latter's own strategies. TNCs tend to be good strategists and scan their markets and new opportunities carefully. The reason why developing countries should understand and anticipate TNC behaviour is to enable them to use this information effectively in bargaining with them. Each TNC has its own history and unique strengths which need to be studied when dealing with it becomes necessary. However, in order to determine the relevant segments of TNC population which sould be explored so that adequate alternatives are generated for consideration by the developing country, it is useful to relate TNC strategies to the factors considered critical by both TNCs and countries, viz., technology, control and indigenous strengths of countries. Technology constitutes the unique strength of TNCs and is a major reason why developing countries are interested in them. Effective control over TNCs is often a national goal whereas minimising host country control is the TNC goal. Internal strengths such as capital, raw materials, markets and technical expertise add to the bargaining power of countries and could be a point of attraction for TNCs.

From the national point of view, a useful question to ask is "what degree of national control will be acceptable to a TNC with a given level of technology and given the indigenous strengths the country has to offer?" A simple way of answering this question is given in Diagram I.

DIAGRAM I

Probable TNC Responses

Technology and Product leadership of TNC \ Indigenous Strengths of Host country	Minor Strengths	Major Strengths
TNCs with advanced technologies, R&D strengths and/ strong brand names	1. Wholly owned subsidiaries 2. Majority owned subsidiaries	1. Majority owned subsidiaries 2. Joint ventures (with local partners)
TNCs with mature technologies, and less market power(relative to TNCs with advanced technologies)	1. Majority owned subsidiaries 2. Joint ventures	1. Joint ventures 2. Minority owned subsidiaries 3. Technical collaboration 4. Licensing

This analysis which is based on international studies on TNC strategies provides some useful insights into probable TNC responses to specified host country conditions and constraints facing them[13]. In terms of effectiveness of control, it is assumed that the wholly owned subsidiary is the least amenable to national control. On the other hand, technical collaboration and licensing are institutional devices which pose the least threat to national control. Other organisational forms lie in between. Needless to say, the simple dichotomy in terms of technology, indigenous strengths, etc., implied in the matrix is meant only to highlight certain tendencies in TNC behaviour. The reality, of course, is much more complex. Diagram I depicts the likely strategies of the TNCs under varying conditions.

(1) TNCs which enjoy a high degree of technological and market leadership (advanced technology, R&D superiority and product brand names) are likely to bargain for wholly owned subsidiaries. These companies will usually have monopolistic or oligopolistic advantages arising from their strong R and D, and market power or brand names which enable them to follow a tight strategy of integrating and centrally controlling their operations world wide. Such giant TNCs which have little competition to fear and can extract monopoly rents will strongly resist national equity participation and control. They are fairly self contained in terms of the resources they need and would expect countries to fit into their global strategy, specially if the latter have no indigenous strengths to offer. Companies like IBM and Coca-Cola fall in this category. Within this segment of TNCs those at the lower and whose bargaining power is not as strong may under certain circumstances agree to majority owned subsidiaries.

13. Stopford and Wells, op.cit.

(2) TNCs with advanced technologies which find the major indigenous strengths of a country valuable, may agree to settle for majority owned subsidiaries, and less frequently for joint ventures. In this segment of TNCs, one finds the more diversified TNCs which wish to take advantage of the resources and strengths of host countries and the medium class of TNCs which are not as large as the giant TNCs nor with the same degree of market power. Clearly, TNCs which need the indigenous strengths of a developing country to complement their resources will not bargain as hard to resist national control.

(3) TNCs with less advanced or mature technologies and without strong market power also tend to be more amenable to national control even if the indigenous strengths of the host country are negligible. They might agree to majority ownership arrangements or joint ventures simply because they are not as safe from competition as the TNCs with advanced technology are.

(4) TNCs with mature technologies and products are likely to accept more stringent national control and "unbundling" arrangements if the developing countries have certain critical strengths and resources which can help them survive and grow in the face of international competition from stronger rivals. Thus where access to internal markets, raw materials, capital and techno-managerial resources seems promising, these TNCs will be willing to agree to minority onwership arrangements, technical collaboration or assistance, management contracts, licensing or other forms of cooperation with local partners and enterprises which tend to bestow progressively greater control on the latter. Medium sized TNCs from "middle power" countries, small TNCs from advanced industrialised countries and TNCs from the more industrialised among the developing countries fall into this category.

Sweden, Denmark, Austria, Norway, Japan and some of the East European socialist countries are examples of middle power countries whose TNCs may fit this pattern. Similarly studies have shown that smaller TNCs from countries such as the U.S.A., U.K. and France also tend to behave in the same fashion[14]. A more recent development is the entry of several enterprises into the arena of TNCs from some of the developing countries (small by international standards) which have adapted mature technologies and products to suit their own needs and then exported them to other developing countries. Smaller, less developed countries which have limited doemstic markets and an adequate supply of labour tend to find these low volume, labour intensive technologies more approrpriate to their needs and less expensive than the more sophisticated, high-volume and hihgly capital intensive technologies of the larger TNCs from advanced countries[15]. An increasing number of joint ventures and subsidiaries are being set up in other countries by companies from India, Philippines, and some Latin American countries.

Even the larger TNCs may be willing to adopt minority control strategies, but only in those of their product lines which are based on the more mature technologies. They may set up new joint ventures to handle their low technology products, as a response to the competition they face, but refuse to do so in respect of their high technology products. The strategies of middle power TNCs and the smaller TNCs can also be explained in terms of their greater need to compete with their rivals in which effort they find the complementary resources of developing countries highly useful. Thus, Japan set up a number of minority owned ventures in Asian countries in the Sixties to take advantage of the raw materials and markets in the region and also to minimise the risk of investment abroad[16]. But the technologies they transferred were invariably of the less advanced, mature variety.

14. Ibid.
15. See K. Balakrishnan, "Indian Joint Ventures abroad," Economic and Political Weekly, May 29, 1976, S. Rose, "Why the Multinational Tide is Ebbing", Fortune, August, 1977, p. 115.
16. Apter and Goodman, op.cit. p. 142

4. Home Country Policies

Though every host country deals directly with TNCs, and important source of influence on the latter which in turn makes its impact felt on the hose country's manoevrability is the policies of the country in which the TNCs are based. The home country's ability to intervene or provide support to its TNCs depends on its own political and economic power. Most TNCs are owned by nationals of industrialised countries who have greater international power. Measures taken by developing (host) countries could be countered by them especially if the former succeed in improving their bargaining power. Counter measures in respect of balance of payments, taxation, etc. could well have adverse consequences for developing countries. Here we have an important source of the tensions arising from the multiple jurisdictions to which TNCs are subject.

Obviously, developing countries should understand and anticipate home country policies while planning their strategies. It is equally important for them to consider the source countries of TNCs as a dimension in strategy formulation. A positive feature of TNCs from middle power countries and developing nations is the relatively lower risk of attracting home country interference. Apart from their economic and technological contribution, these TNCs could also act as a countervailing force in the country's dealings with the larger TNCs originating from the more powerful countries.

5. Competition from other Host Countries

In a world of growing interdependence, nations taken by one host country often tend to have effects on other hose countries. The pressure that one developing country puts on a TNC to step up production or exports may cause the TNC to cut back its production in other developing countries.

Competitive investment incentives offered by one country may provoke others to follow suit and nullify the expected gains for all in the process. Unilateral measures thus have important limitations.

There are greater chances of success if developing host countries are able to promote cooperation among themselves in evolving strategies for dealing with TNCs. Though in the final analysis, national interests will dominate their policies, organised efforts to cooperate in areas of common interest and minimise infructuous competition will undoubtedly enable every developing country to improve its bargaining power[17].

The foregoing analysis shows how important it is for a developing country to formulate its policies towards TNCs after taking into account the relevant determinants and the trade offs between competing goals which may have to be made in order to ensure optimal responses from TNCs. A survey of the industrial policies of several developing countries makes it clear that the dominant influence has been the first determinant, viz. objectives and preferences of the host country. It would seem that even factors such as the host country's indigenous strengths and resources, and probable TNC strategies are not systematically considered in the process of policy formulation.

The effectiveness of policy is determined not only by its substance, but also by the effieiency of its implementation. In this respect, again, the policies prevailing in developing countries leave much to be desired. An analysis of the prevailing national strategies against the backdrop of the determinants discussed above reveals the following limitations:

1. The framework of policy measures adopted by many developing countries do not seem to have taken into account the complex inter-relationships which must be considered in formulating a national strategy relating to TNCs. The popular policy of linking the degree of equity

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17. The Andean Common Market Pact is an example of this approach.

participation to the sector of TNC operations reflects the developing country's concern for directing TNCs into industries considered high priority from the national point of view. The most common basis on which differential degrees of ownership are permitted is the distinction between import substituting and export oriented industries. Thus countries such as Malaysia and India permit a higher degree of foreign ownership in export industries as against those which cater to the home market. Others such as the Andean common market countries, Mexico and Iran have applied a uniform limit on equity participation by TNCs. Some countries such as Nigeria and India permit a higher degree of foreign ownership in certain import substituting industries as against others.

While publicising and adhering to strict norms in regard to dilution of equity, some countries such as India have shown greater flexibility in considering the terms and conditions for the acquisition of technology. In respect of the rates of royalties, lump sum payments and other conditions for acquiring technologies considered significant, these countries have been willing to negotiate and reach agreements on a case by case basis.

It is highly questionable whether the division of industries into those engaged in import substitution and export promotion or those which are core/key industries and others is an adequate basis for determining how much ownership and control a country is willing to give up in order to attract TNCs. Certainly, it reflects the country's production preferences and development priorities. However, this criterion does not take into account the complexities of TNC strategies which are also relevant to the final outcome in terms of investment decisions. Thus, even though an export industry has a higher priority than an import substituting industry, if the latter is based on an advanced technology possessed by very few TNCs, the chances are that these TNCs will not respond to the minority ownership offered by the country's policy. By the same token, for a country to attract a TNC into an export industry based on a mature technology which is known to a number of competing TNCs, the offer of majority ownership may be too high a price to pay.

For the development of core industries also, some host countries have been willing to offer majority ownership to TNCs. Here again, what a country defines as a core or key industry (e.g. fertilisers) may well be based on well known mature technologies in which TNCs from several countries may have considerable experience. The country may be able to strike a good bargain, under these conditions, even if the condition of minority ownership was imposed on interested TNCs.

The upshot of the argument is that the propensity on the part of TNCs to own and control their affiliates is determined by their bargaining power which in turn depends on their unique technological strengths, product leadership, access to markets and other resources. The greater these strengths, the stronger the TNC propensity to control affiliates. On the other hand, TNCs with more mature technologies and which are keen to gain access to the raw materials, markets and capital of a country will have a lower propensity to control its affiliates. To the extent that the host country strategy does not take into account these patterns of TNC behaviour, it will remain a rather blunt tool for transacting business with TNCs.

India is one of the few countries which has an explicit policy of permiting majority foreign ownership in certain specified industries with sophisticated technology. Developing countries which prescribe a uniformly rigid limit on foreign ownership will have the least flexibility to strike bargains with TNCs, taking into account their national strengths and the TNC need for the host country's resources.

2. The national strategy tends to be primarily regulatory in nature, with scant attention paid to the search process which is a prerequisite for generating adequate alternatives for consideration by the concerned government authority and ensuring that TNCs which have a high probability of meeting the requirements of the country are selected.

TNCs are treated as an undifferentiated mass which will respond once the conditions for entry are made known. Such a ready response is likely to occur only under conditions of "excess supply", with TNCs competing with one another to get into the country. This will be the case undoubtedly in some industries, but need not be the rule.

Where there is no systematic search process, the burden of locating potential investors, collaborators or licensors falls on the local partners, managers or ministry officials who are influenced, more often than not, by the historical trade links of the country or personal knowledge of a few well known firms. Thus in countries which have had a colonial past, it is not uncommon for local enterpreneurs to turn to the TNCs of the mother country. Officials, especially technocrats, will tend to contact TNCs reputed for their technological leadership. The fact is that the relevant options for the country could have been significantly widened if the environment was systematically scanned. This in turn would have improved the bargaining power of the country.

A purely regulatory approach is more appropriate when the targets of regulation are within the control of the State. In the pre-investment stage, TNCs are not generally within the control of the developing country. A strategy which focuses exclusively on the enforcement of conditions of entry and is passive towards the generation of options through a systematic search process, therefore, tends to weaken the bargaining power of the country.

3. The strategies of most developing countries pay very little attention to the tasks and processes of monitoring and controlling TNC operations in the post-entry phase. The investment boards, national registries and other screening agencies are concerned only with ensuring that the specified conditions for entry have been fulfilled. In recent years, some of these bodies have been concerned with the monitoring of dilution of ownership or divestment which takes place in the post-entry phase.

However, other important aspects of TNC operations such as responsiveness to national goals and policies in respect of production, prices, profits and taxation, transfer pricing, diversification and export comitments are seldom monitored or reviewed on a continuing basis. Serious monitoring of TNC activities can be a countervailing force in the host country to keep in check the tendency of TNCs to ignore national guidelines, and minimise the negative features of TNC conduct. Clearly, the performance of this function calls for administrative and technical capabilities which may be difficult to find in the routine administrative systems of many countries. Host country strategies which are "passive" in the monitoring and control function are deficient in so far as they do not enable governments to assess the effectiveness of their policies towards TNCs on a continuing basis.

III. Implications for Industrial Policy

The foregoing analysis of the determinants of country policies towards TNCs does not imply that the outcome will in all cases to be let TNCs operate in a country. The preferences of a developing country for national control may be so strong and its desired pattern of production of goods may have so little to gain from foreign technology that the country may decide against foreign private investment and the import of technology. Thus a country may avoid having to deal with TNCs and instead prefer to depend on its own internal resources for development. China is the best example of a developing country which until very recently practised this policy rather strictly. In the Fifties, China did rely on the import of Soviet capital and technology. However, the break-down in Soviet-Chinese relations put an end to their industrial and technical collaboration.

The urgent task of a developing country is to augment the output of the desired goods and services and to raise the levels of productivity. A country invests more capital and improves or develops technologies in order to achieve these goals. A country which can accomplish these goals on its own does not have to depend on TNCs. But the implications of such self reliance should be clearly understood by its government. The country should not only be able to mobilise the needed capital, but also invest in indigenous research and development and successfully diffuse new and improved technologies. It is in this difficult area that developing countries face the most intractable problems. Critical manpower shortages, the high cost of and lack of experience in research and development, and the managerial problems in commercialising laboratory technologies are hurdles which make it difficult for countries to develop and utilise indigenous technologies [18]. Even so, a country may decide to go slow, depending on its own technology and capital rather than move faster through dependence on TNCs. This is the basic choice a country has to make in light of its goals, resources and values.

The Japanese example is often quoted to show that a country could develop and adapt its own technologies without having to depend on foreign investment. It is true that Japan for many years has borrowed or bought mature technologies and then improved upon them through indigenous R and D. It should be noted, however, that Japan by this time was more developed than many developing countries today, with its own stock of technological manpower, organisational capability and commitment, and a sense of national discipline that enabled the country to adhere strictly to a policy of self reliance. Developing countries which do not fulfil these pre-conditions are unlikely to succeed in implementing this strategy. If today, the Soviet Union and other European socialist countries are able to pursue this strategy successfully, it is because these pre-conditions have been substantially met.

18. The recent policy shifts in China have probably been influenced by such problems. The basic question is whether a country aims at the development of indigenous technologies in all sectors or adopts a selective approach consistent with its priorities and resources.

Development Strategy and TNC Mix [19]

The compulsions of economic development are such that most developing countries today are unlikely to follow a policy of autarky that will rule out transactions with TNCs. It is equally improbable that many will be able to limit their dealings with TNCs to outright purchases of technology. The chances are that most of the developing countries will continue to bargain for varying "mixes" of capital, technology, management and market access from TNCs. If so the major policy issues relevant to these countries will be two fold:

a. What is the mix of these factors that is appropriate to any given country?

b. What can be done to strengthen the bargaining power and control of the country vis a vis TNCs?

The question of "TNC Mix" is one that a developing country has to work out for itself. The country's level of development and resources, its national goals and preferences, and its ability to "unbundle" the mix are certainly key considerations in determining the mix that is appropriate to it. Within the country, the desired mix might vary from one industrial sector to another.

While no standard answer can be offered on the question of TNC mix, it is important to point out that the development strategy underlying the industrial policy of a country might influence considerably the mix it will seek. For example, if a country's development strategy emphasises the production of goods and services for elitist (high income) consumption, the mix is bound to be biased in favour of

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19. We shall use the term "TNC mix" to refer to the combination of capital technology, management and market access that a country seeks from TNCs. One country may seek less of capital, more of advanced technology and management while another may seek a combination of more capital, mature technology and market access from TNCs.

increased import of private foreign capital and the more advanced and capital intensive technologies with the inevitable tendency for greater management control by TNCs. The consumption pattern of the higher income groups will generate demand for the relatively newer and more expensive goods the technologies which are monopolised by a limited number of TNCs governed by centralised control strategies. It is not surprising therefore that countries which adopt such development strategies find it necessary to increase their dependence on TNCs and assign lower priority to the goal of national control.

If, on the other hand, the development strategy of a country is designed to promote the production of goods and services that meet mass consumption needs, the TNC mix required may be quite different. The consumption needs of the lower income groups and the required public services (transport, health, power, housing, education, etc) could be met through the development of the relatively mature and possibly more labour intensive technologies available from a variety of sources. The focus here is not on the latest and most sophisticated models, but on the cheaper and time tested products which are within the reach of the masses. As has been pointed out earlier, the acquisition and management of mature technologies are easier and more consistent with the goal of national control. International lending agencies are more likely to provide funds to support this type of production pattern, thereby reducing the need for dependence on private foreign investment in the TNC mix. The willingness of TNCs to dilute equity and collaborate with local partners will be greater in this case. Further, the developing country's ability to absorb and build on the imported technology will be greater in this situation. The craze for the latest and most complex technologies not only results in a TNC mix that serves the needs of the limited segment of high income earners, but also leads to serious problems in the assimilation of new technologies as is evident from the problems of maintenance, high prices and costs, and quality that face many poor countries.

Examples are the development of the airconditioning and colour TV industries instead of the electric fan and transistor radio indust and the production of luxury automobilies instead of cycles, motor cycles, or buses which are more relevant to mass consumption.

The implications of the two development strategies for the TNC mix associated with each of them have been spelt out to underline certain strong tendencies, and not to claim the existence of an inevitable dichotomy. What is important to bear in mind is that an elilist development strategy is more likely to be associated with a TNC mix that tends to deepen dependency and dilute national control, weaken the options and bargaining power of the developing country, and render the process of technology transfer and absorption more difficult.

The foregoing analysis highlights some important considerations which are germane to the formulation of industrial policy. Firstly, policies towards TNCs which are based on uniform treatment for all or discrimination based on import substitution or export promotion are deficient in so far as they do not consciously take into account the end uses of goods end the nature of technology being imported. Secondly, most developing nations may be able to widen the options available to them in the choice of TNCs, increase national control and improve their capacity for technology absorption if their development strategy is designed to meet the needs of the masses rather than to augment elitist consumption.[20] Thirdly, since the analysis of end uses and goods and the probing of specific technologies are critical to he process of TNC negotiation and selection, there is a strong case for strengthening the scanning and negotiating capacity of individual countries. Macro level policy statements of a broad nature are certainly necessary, but not sufficient to enable countries to strike optimal bargains with TNCs. In fact, there is considerable merit in leaving an element of flexibility in the statement of policy while toughening up the negotiation and selection processes at the micro level.

20. This is mot to deny that TNCs may not be of much assistance in meeting some important mass consumption needs, see footnote 10.

Unfortunately, many developing countries have the less desirable combination of rigid policies and loose negotiation and selection processes at the government level which weakens their position vis a vis TNCs.

Widening Options and the Segmentation of TNCs

The negotiating capacity and bargaining power of a developing country will very much depend on the range of options it has in choosing among TNCs. In developing a specific industry or importing a technology, if a country's choice is limited to one or two TNCs, its bargaining position will be weak. The advanced technology TNCs in any industry are generally few in number and have their origin in the most industrialised and politically powerful countries. The bargaining power that a developing country can have in negotiating with them will tend to be more limited than with the more mature technology oriented TNCs whose population is larger.

Wider options, however, do not present themselves unless countries are willing to consciously look for them. This calls for a systematic search process that is capable of generating information on the relevant alternatives which a country could consider. A useful approach for this purpose is to segment the TNC population into categories by the criteria of degree of control, levels of technology and production pattern. Diagram II shows the resulting segments into which the entire population of TNCs will fall. The segments are depicted as series of steps. The associated TNC control preferences and types of technology and goods are indicated against each step.

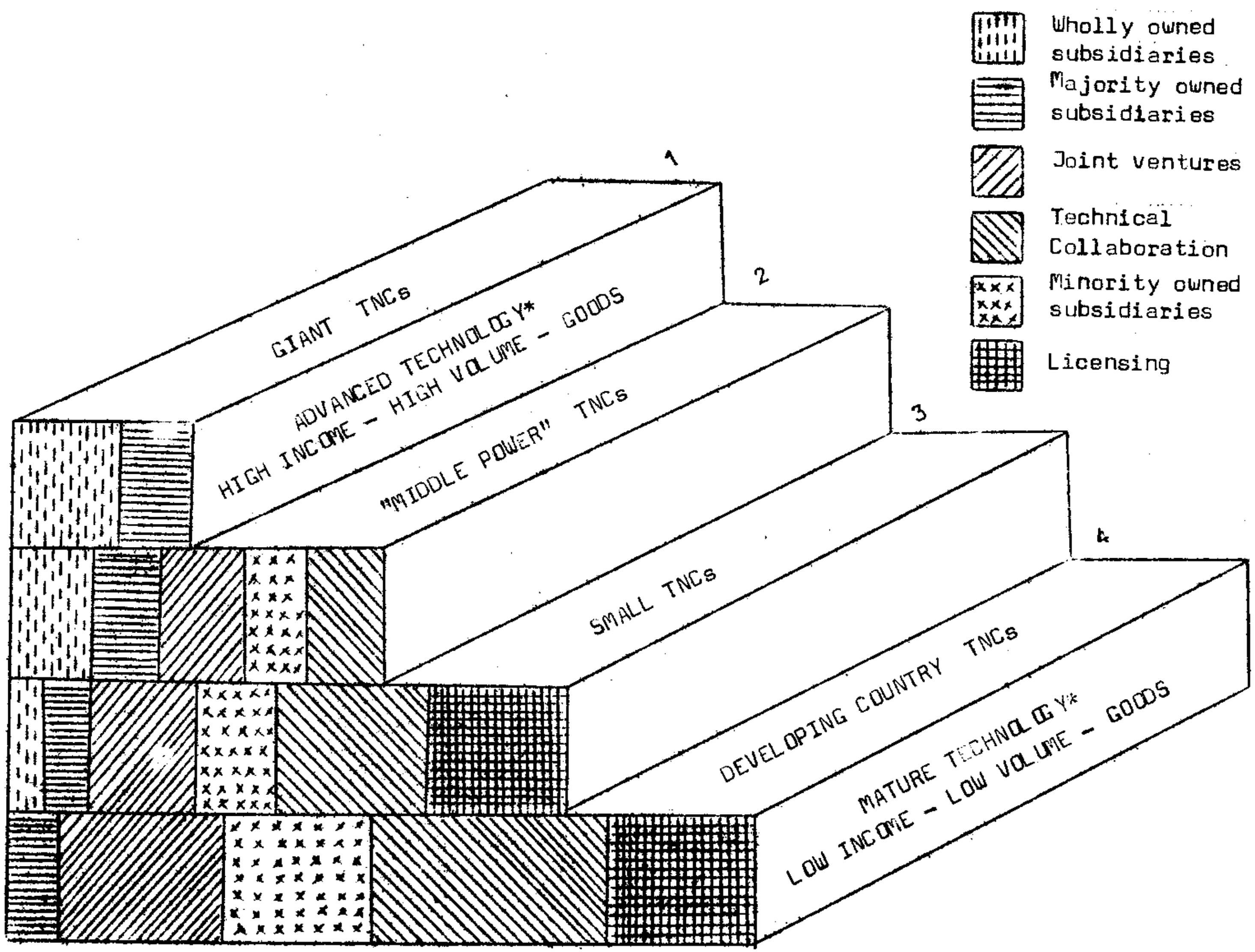
In the four segments of TNCs in this diagram, we find groups of TNCs which have distinctive features. At the top, there are the giant TNCs, generally based in the most affluent and powerful countries. This is the segment to search for the advanced technology TNCs which produce high income goods. Obviously, this segment may be expected to resist national control as evidenced by its strong preference for wholly owned subsidiaries. At the bottom, we have a fourth segment consisting of "developing country TNCs" which can provide only mature technologies and products, but whose propensity to control might be the lowest. In between lie the second and third segments of "middle power" TNCs and "small" TNCs[21]. Though relatively new on the international scene, in several important respects, these segments may sometimes be more advantageous for developing countries than the first segment of giant TNCs. The TNC propensity to control is depicted by the mix of institutional devices shown against each TNC segment.

It is interesting to note that developing country TNCs (fourth segment) may have technologies which tend to be relatively less capital intensive among the range of technologies available worldwide, having been filtered and adapted to fit the smaller size of markets and income levels of one developing country or the other. Newly developing countries might find that the acquisition and absorption of these technologies are more manageable than that of technologies offered by the giant TNCs. In short, while these countries might find it difficult to generate "appropriate" technologies on their own in the early stages of their development, the segment of developing country TNCs could offer them access to the more "appropriate parts of the global spectrum of technologies currently available.

21. These categories of TNCs have been defined in the preceding section. Note that middle power TNCs include those from socialist countries also.

Diagram II

Segmentation of TNCs



* Representing the two ends of the spectrum

As a country scans the opportunities available to it in the different TNC segments, it improves its chances of diversifying the sources of TNC origin. The risks of home country interference associated with the giant TNCs from the large, industrialised countries can be reduced by seeking alternatives from other TNC segments (2, 3 and 4). Thus a country may not only widen its options, but also increase the probability of achieving greater national control, gaining access to more appropriate technologies and minimising the risks of home country interference if it is effective in its search for viable alternatives by scanning the relevant TNC segments.

The search process of developing countries should be strengthened so that they are able to identify and examine in depth the opportunities and alternatives available to them in the segments relevant to their objectives. Generally speaking, the alternatives available to a country are bound to increase as its search efforts focus on the lower segments. The fact that the second, third and fourth segments of TNCs have been expanding in recent years augers well for the developing countries.

The search for wider options, in terms of the TNCs available to meet the specific requirements of developing countries, has also to be matched by the countries' ability to evaluate the alternative and assess the appropriateness and worth of the technologies to be acquired. Individual enterpreneurs may be incapable of performing this function or unwilling to perform it because of the high costs, risks and the externalities involved. Such technical assessments call for state intervention and in the case of smaller countries, regional cooperation might be the appropriate answer[22]. Clearly, there is a strong case for providing technical assistance to countries under international auspices for this purpose. UNIDO and UNCAC have begun to provide such assistance.

22. Countries may jointly commission studies of specific industries and sectors with a view to evaluating the options available in terms of technologies and TNCs more suited to their conditions. The findings may be shared and used as a basis for individual negotiations.

Monitoring Implementation

Irrespective of the specific strategies adopted by developing countries, the task of monitoring and controlling the implementation of policies is important for all. The mere proclamation of policies and controls is no guarantee that they will be implemented effectively.

There are several resons why a gap between proclaimed intentions and achievements might emerge in many countries. Firstly, controls might exist on statute books, but no serious enforcement in fact take place. A lock of political will reulting from collusion between the political-bureaucratic elites and TNCs may thwart the publicised intentions of governments. Secondly, effective implementation may be weakened by the lack of a coordinated approach within government concerning TNC matters. Where multiple agencies are involved in the regulatory and monitoring processes and there is no single focal point of government control, an integrated view of TNCs cannot be developed even if a great deal of information is generated on their conduct and operations. The problem here is that information is segmented and inter-agency rivalries and the absence of administrative systems to integrate date gathering, analysis and use weakens the government's ability to regulate TNCs. Thirdly, it may be that the information required to monitor and regulate TNCs do not exist and the ability to design the information system and make use of its outputs is relatively limited. Even if the politcal will exists and the administrative system is keen on implementation, in these circumstances, lack of information will stand in the way of effective control.

It should be obvious that an information system will be no avail in countries where the political will to effectively operate the monitoring and regulatory processes in relation to TNCs is absent. An information system cannot be of much assistance also in cases where the basic problem lies in the organisational inadequacies of the government in monitoring TNC activities. However, where the political and administrative prerequisites for effectiveness exist, but the information base is weak or data requirements are not articulated properly, the regulatory process could be strengthened by designing an appropriate information system. Before serious efforts are made in develop an information system in a country, the authorities concerned must satisfy themselves that the pre-requisities for its proper utilisation exist.

IV. CONCLUSION

A variety of efforts are under way at the international level to strengthen the capability of developing countries in dealing with transnational corporations which are a global source of technology, capital and management. It is argued in this paper that while international proposals such as the adoption of a code of conduct for TNCs are desirable, the crucial determinant of the effectiveness of host governments in dealing with TNCs will be their ability to formulate and implement deliberate and carefully worked out strategies in relation to TNCs, both at the policy and negotiating levels. In this paper we have examined some of the first order policy issues which deserve to be considered by developing countries which already have proposal to have transactions with TNCs in order to develop their industrial base.

The formulation of policies towards TNCs should be based on a careful orchestration of the national objectives relating to production, technology and control, and take into account the indigenous strengths and resources of the country and the likely strategies TNCs might employ. Our analysis shows, firstly, that polcies towards TNCs which are based on uniform treatment for all or on conventional criteria such as import substitution and export promotion are inadequate, and that there is a need to more consciously take into account the end used of goods and the types of technology being imported. Secondly, most developing countries may be able to widen the options available to them in the choice of TNCs, increase national control and improve their capacity for technology absorption if their development strategy is designed to meet the needs of the masses rather than to augment elitist consumption. Instead of depending only on giant TNCs from the advanced countries, developing countries will then be able to take advantage of technologies from "middle power" countries and other developing countries which may have more appropriate combinations of technology, capital and management to offer and entail less severe risks of external political pressure and influence. Thirdly, since the analysis of end uses and examination of specific technologies are critical elements in the process of TNC negotiation and selection, there is a strong case for strengthening the scanning and negotiating capacity of developing countries. There appears to be considerable merit in leaving an element of flexibility in the statement of macro-level policies while strengthening the negotiating skills and selection processes at the micro level.

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