David Fieldhouse discusses the impact of multinational corporations (MNCs) on the development experiences of Third World states. He starts with the “dependency” school’s view that MNCs reinforce the underdevelopment of the Third World, and then reviews the potential costs and benefits to developing countries of multinational production. He concludes that the impact of the MNC depends on the host government’s ability to manage its relations with the firm. Many factors might affect the state’s position in regard to foreign firms, especially the advantages of a host state in the bargaining relationship. Fieldhouse concludes that without looking at specific cases it is generally impossible to know whether an MNC will benefit or harm a host country.

A multinational company (alias multinational corporation, transnational enterprise and many other synonyms, but hereafter referred to as MNC) can be defined as a firm which owns or controls income-generating assets in more than one country. The substance has existed for more than a century, but it was only twenty-five years ago that it was given a special name within the framework of foreign direct investment (FDI) and so became a defined concept....
after empire and a cause of “underdevelopment”? I do not claim to answer it, merely to summarize the issues and to suggest a broad line of approach.

THE MULTINATIONAL AS “A NEW IMPERIAL SYSTEM” IN THE THIRD WORLD

The most important question concerning the modern MNC is why its character and activities should be regarded as a special problem. At one level, of course, the MNC is liable to the same criticism as any capitalist enterprise: that it exists to extract surplus value and thus exploit the proletariat. Its two special features are that, in common with all forms of FDI, it operates across national frontiers and that control is retained by one global centre. It might, therefore, have been expected that the first and main attack on MNCs would have come from Marxists; yet this was one dog that did not bark until there was a chorus into which it could join. It is always difficult to explain why something did not happen. The probable explanation is that... Lenin and later Marxist-Leninists chose not to distinguish between different forms of capitalist enterprise that collectively constituted what they called “imperialism.” Thus it was not until 1968 that those two stalwart New England Marxists, Baran and Sweezy, included in their book *Monopoly Capital*, a direct Marxist appreciation of MNCs. Ironically, this stemmed from their reading an article in the Wall Street journal, *Business Week*, for 20 April 1963. Following *Business Week*...they took Standard Oil (NJ) as their model of an MNC, noting with surprise that it really was a world-wide enterprise and that, far from exporting capital in the way finance capital was supposed to do, its post-1945 expansion had been financed almost entirely by its overseas earnings. Moreover, they realized that since 1945 sales and profits of American overseas subsidiaries had been rising faster than those in the United States. Clearly, the MNC needed special analysis; but this led Baran and Sweezy only to the somewhat naïve conclusion that the main reason why the United States opposed the growth of socialism in the Third World was that this would restrict further opportunities for expanding FDI, despite the fact that socialist states, being industrialized, were the best trading partners.

Baran and Sweezy did not, then, pursue the matter further. They were, in fact, merely getting on to a bandwagon that had been set in motion the previous year by J.-J.Servan-Schreiber, a Frenchman whose *American Challenge* is conventionally taken to have been the first widely noticed rationalization of the impact of American industrial investment on post-1945 Europe. His central argument was that American corporations had seen the opportunity presented first by postwar reconstruction and the shortage of dollars which inhibited normal imports, then by the integration of the market following the Treaty of Rome in 1958. They had moved into Europe on a very large scale, concentrating mainly in the more technologically advanced industries, in which they now had a commanding lead, using the products of their research and development facilities (R&D) at home to make money abroad. Paradoxically, 90 per cent of this “investment” had been raised by loans and government grants within Europe. But the most important fact was that Europe stood in danger of becoming dependent on the United States not only for its most
sophisticated industries but, more serious, for the technology that made them possible. Europe would thus be condemned to remain in perpetuity on the second rung of a five-rung ladder, as an “advanced industrial” economy below the...“post-industrial” states—the United States, Canada, Japan and Sweden. The solution was not to exclude American investment but for Europe to compete more effectively through a genuine federation, including Britain, state support for R&D, specialization by major European corporations in advanced products and improved technical education.

Servan-Schreiber’s book aroused much interest and may have helped to trigger off widespread investigation into the character of MNCs (a term, incidentally, which he did not use). Probably his most influential concept was that of an emerging “hierarchy” of countries in different stages of technological development which might, because of the unprecedented advantage then possessed by American companies, become ossified. This challenged the then conventional assumption that all economies were on the same escalator which would bear them from poverty to affluence. It is uncertain whether this idea was his own creation; but there is no doubt that within a year or two this became the key element in two quite different strands of radical thinking on MNCs and Third World development. On the one hand, some of the Latin American dependency theorists who, as a group, had hitherto shown no great interest in MNCs, now quickly built them into their existing concept of “underdevelopment.” This was frankly derivative and is not worth discussing here. Much more important and influential was the work of S.H.Hymer whose seminal ideas, published between 1970 and 1972, are central to the modern debate over the role of the MNC in less developed countries.

Hymer accurately reflects the way in which assessments of the MNC became increasingly hostile after about 1960. His PhD dissertation, completed at MIT in 1960 but not published until 1976, was widely read in typescript and seems to have been the origin of the argument that the primary function of FDI was to exploit control of overseas investment to obtain a monopoly rent. Yet in 1960 Hymer was not an unqualified critic of MNCs; his position was that of a conventional North American liberal (he was a Canadian) who believed in an anti-trust approach to large enterprises of all types in order to counter monopoly and promote competition within a competitive economy. By the later 1960s, however, he had become a Marxist; and it was from this standpoint that he developed a more radical critique of the MNC in a series of articles which were subsequently collected and published after his accidental death (1974) in 1979.

Hymer’s central message was that, although MNCs might increase the world’s wealth through their efficient use of resources, the benefits would go mainly to the countries in which the MNCs were based, while the rest of the world paid the price of their monopoly profits. The result would be an hierarchical world order as corporations developed a complex division of labour within individual firms and throughout the international economy....

These ideas form the starting point of most recent assessments of the impact of the MNC on host countries in which it has subsidiaries under its effective control. The essence of Hymer’s concept of an international hierarchy was that
the interests of its lower echelons must be subordinated to those of the highest level: that is, subsidiaries exist only to serve the shareholders in the parent company at the top of the pyramid; so that, when a conflict of interest arises, the interests of the base will necessarily be sacrificed to those of the apex. Without this assumption the debate over the role of the MNC would be merely technical, concerned with its motivation, organization and profitability. By contrast, most of the literature since about 1970 has turned on two different issues. First, whether there is a necessary conflict of interest between MNCs and host countries. Secondly, whether the specific methods adopted by MNCs in particular countries are to the disadvantage of their hosts, even if the MNC performed a generally useful role; and if so, what measures the host should adopt to minimize or reduce these disadvantages.

It is important to recognize that these issues are not necessarily related. That is, we could take the view that FDI may, in principle, be in the best interests of host countries, while accepting that particular corporations, types of enterprise, or the way in which they operate may be disadvantageous to the host. I propose very briefly to outline the standard arguments on both these issues. To simplify, I shall concentrate on two of the four generally accepted types of MNC: those that manufacture in host countries for international markets ("off-shore” enterprises) and those that manufacture for the host market. That is not to ignore the importance of enterprises which specialize in the extraction of minerals and petroleum or in production of agricultural commodities. These are central to the debate over the MNC and will be considered in the conclusion. But most of the modern literature tends to assume, rightly, that these are now historic phenomena, rapidly losing their importance as host countries nationalize oil supplies, mines and plantations. The central issue in the debate over the MNC turns on its industrial investments, now the largest single element in FDI and its dynamic sector. Let us consider first the general theoretical arguments for and against direct investment in manufacturing from the standpoint of host countries, then some evidence of their actual effects.

It is conventional to discuss the effects of MNCs under two heads: the “direct” economic effect on the host country and “externalities” or side effects. The direct economic effect of establishing a manufacturing subsidiary of an MNC should consist of an increase in the real income of the host country resulting from the import of capital, skills and technology which would otherwise not be available. Provided the total increase of the income of the host government (through taxes) and of the society (through higher incomes or cheaper goods) exceeds the amount accruing to the owners of the MNC as profits, we would expect the direct economic effect to be favourable. Only if the profits made by the MNC are, in effect, provided by the host government in the form of subsidies (direct, by remission of taxes or through public investment in the infrastructure made solely to attract or facilitate the MNC’s operations); or, alternatively, if the level of effective protection is so high that the subsidiary adds no value (because the goods it makes could be bought more cheaply on world markets) should there fail to be a net direct benefit to the host economy.

The list of actual or potential indirect benefits is much longer and can, in fact, be cut to taste. Let us take the relatively simple example of FDI in a developed
economy. In his pioneering survey of American direct investment in Britain, published in 1958, J.H. Dunning singled out the following indirect benefits. The general effect on British industrial development was good because of the diffusion of imported skills and the creation of close links with the more dynamic American economy. The impact of this imported efficiency was both vertical (affecting British suppliers of American firms “upstream” and consumers of American products “downstream” of the subsidiary), and horizontal, affecting many other parts of the British economy. American firms set higher standards of pay and conditions, which had a valuable demonstration effect on British labour and employers. Some American factories were set up in development areas. Although these caused some strain on the supply of skilled labour, this was not a general or serious problem. Finally, American firms had a directly measurable effect on the British balance of payments. Partly because they were geared to exporting to established markets for their products, American firms had an excellent export record and, in 1954, accounted for 12 per cent of total British manufacturing exports. In that year the net balance of payments effect was plus £231 million. In addition, Britain was saved an unmeasurable quantity of dollars through the import-substituting effect of American industries in Britain.

Dunning therefore sums up the direct and indirect benefits of American FDI to Britain before 1958 in terms of the law of comparative costs. Just as, under Ricardo’s law of comparative advantage, and in a free trade world, any two countries could trade to their mutual advantage provided each concentrated on those products in which it had a relative (though not necessarily absolute) advantage, so in the modern age of protection and economic management, American FDI in Britain enabled each country to use its respective assets more effectively than either could have done in isolation….

There could be no clearer statement of both the theoretical and actual benefits of FDI in a developed country: Servan-Schreiber’s clarion call nine years later was a false alarm, since the Continent had benefited as much as Britain, and in much the same ways, from the activities of American MNCs. Moreover, the United States had long since lost the monopoly of advanced technology it had briefly held in the 1940s and was no longer the only large-scale foreign investor: by 1978 Western Europe’s accumulated stock of FDI had almost caught up with that of the United States. Clearly, what had been sauce for the goose was now sauce for the gander. Europe had nothing to fear from the United States because it could play the same game.

The question that is central to the study of the multinational in the Third World is whether the same holds true there as in developed countries. On any principle of comparative costs or comparative advantage it ought, of course, to do so. The main reason for wondering whether it does is that for less developed countries (LDCs) FDI is a one-way, not a two-way process: they are almost entirely recipients of foreign investment, not investors. Defined as “underdeveloped” countries, they do not, for the most part, possess the technology, capital, or know-how which might enable them to reverse roles. Their governments may not have the sophistication (or, perhaps, as dependency theorists commonly argue, the patriotism and concern for public welfare) which is expected of Western governments and
which might enable them to judge whether the cost of providing conditions attractive to MNCs will outweigh the “direct” economic benefits their countries might obtain. Above all, the indirect effects may be very different because the host country may not be able to respond to the stimulus of foreign enterprise in the way expected in developed countries. Thus, even if Dunning’s law of comparative costs holds good at a purely economic level, there may be other non-economic considerations specific to LDCs which outweigh the direct benefits provided by MNCs.

This, indeed, is the basic assertion made by a large number of critics of MNCs who do not seriously question their utility in the developed world but argue, from very diverse standpoints, that they are of dubious benefit to LDCs. To adopt Sanjay Lall’s typology, there are three common ways of looking at the deficiencies of the MNC in poor countries: that of the “nationalists,” who accept the potential benefits of FDI but have reservations about certain aspects of it; the dependencia approach, which (according to Lall) cannot be incorporated into any formal economic analysis; and that of some Marxists, who deny all possibility that an MNC can convey any benefits on host countries. All three are interesting; but, since most criticism of MNCs falls under the first head, let us consider the reservations made by Lall himself and Paul Streeten from a “nationalist” standpoint.

Their starting-point is the dual proposition that the proper criterion for assessing the role of MNCs in LDCs must be social welfare in the broadest sense; but also that there is no possibility of making a final objective judgement on their welfare implications. The reasons are limited information on many aspects of MNC activities, unmeasurable “externalities,” different economic theories of development, differing value judgements on “welfare” and wide contrasts in defining “alternative situations.” Nevertheless, conventional assessments of the costs and benefits of MNCs which use these difficulties as a ground for mere agnosticism are vulnerable to the accusation of circularity. Thus, if we accept the neo-classical Paretian welfare paradigm, which assumes a basic harmony of interests in society, the ability of individuals to know and pursue their own interests and the neutrality of the state, which pursues a “national” interest, then MNCs are bound to be in the best interests of a host country because they satisfy individual preferences in the market and provide technology, marketing, management skills and other externalities. Adverse effects can simply be blamed on the policies of the host government: transfer prices within MNCs alone lie to some extent beyond state control. Thus, to obtain any grip on the subject, we must look for limitations in this basic welfare critique.

Lall and Streeten point to four possible defects in welfare theory as it relates to MNCs. It makes no distinction between “wants” on ethical or social grounds: that is, consumer preference may not be the ultimate criterion of welfare. Wants may not be genuine but learnt. Income distribution is excluded. The state may not be neutral, rather reflecting class or group control of state power in its own interests. This means that we have to go beyond the actual activities of MNCs into a normative assessment of “desirable” forms of social and economic development in LDCs. Or, to put it bluntly, the standard of assessment must be what conduces most to the sort of society the critic would like to see. For Lall and Streeten, as for most
“nationalist” critics of MNCs, this would seem to be one in which the needs of the poor majority take precedence over the wants of the relatively affluent minority, so that the character and distribution of the benefits provided by MNCs are more important as a measure of their contribution to “growth” than undifferentiated figures of per capita or national income, which conceal the distribution of advantages.

Once this is conceded, it is possible to construct a quite different critique of the desirability of MNCs, in which the test is whether some alternative source of a desired good would make a greater contribution to social welfare, as defined above. Lall and Streeten therefore survey the various benefits conventionally ascribed to MNCs under three main heads, in each case emphasizing concomitant costs and alternative policies.

(1) Capital

MNCs have preferential access to the capital market and their investment may stimulate further aid from foreign governments. But, in fact, MNCs bring in very little capital, which might benefit the host’s foreign-exchange position, instead reinvesting local profits and raising funds in the host country. This is desirable in so far as the MNC raises equity capital, since it reduces the “rent” and the foreign-exchange costs of servicing the investment; but less good if it uses local loan capital, since this diverts local savings from other activities. Thus the main capital import consists of machinery, know-how, patents, and so on; and here the danger is that these things, coming as part of a “package,” may be overpriced. Thus the role of MNCs as a source of capital is far from simple. Each case must stand alone and there may be better ways for an LDC to acquire these capital assets than through an MNC.

(2) Organization and Management

In this field the superiority of an MNC is undoubted, both as an efficient user of resources and as a demonstrator of sound business methods in countries where corporate “management” is a novelty. Yet, once again, there may be hidden costs, seen from a “nationalist” or “welfare” position.

First, as Hymer argued, the price of accepting an MNC may be subordination as a “branch-plant” in an hierarchical world system, which means dependence.

Secondly, there is transfer-pricing within MNCs, which Lall and Streeten define as follows.

The problem arises from the fact that transfer prices, being under the control of the firm concerned, can be put at levels which differ from prices which would obtain in “arms-length” transactions, and so can be manipulated to shift profits clandestinely from one area of operations to another. If the different units of an MNC behaved like independent firms, clearly the problem would not arise. However, given the growing extent of intra-firm trade, it is the centralization of
authority and the growth of a global business strategy that creates fears on the part of governments (both host and home) that they are losing legitimate tax revenue.¹

Obviously the host government can and should attempt to monitor such transactions so as to ensure that profits declared reflect actual profits made. But there are technical difficulties in doing so, particularly for LDCs with comparatively weak bureaucracies; and transfer-pricing remains one of the most suspect aspects of MNCs.

Thirdly, the very efficiency of an MNC may have an adverse effect on domestic entrepreneurship in the host country. If all the dynamic and technically advanced sectors of the LDC’s economy pass into the hands of foreign firms, this may check economic development by reducing the rate of capital accumulation. But this, in fact, is very unlikely. It would happen only in any of three hypothetical cases: first, if the MNC made no higher profits than local men and repatriated a proportion of these profits, by contrast with local capitalists, if these are assumed to reinvest all their retained profits at home; secondly, if subsidiaries were made to pay more for technology than local entrepreneurs could have paid for the same thing on an open market; and, thirdly, if the MNCs created an oligopolistic market structure, as contrasted with an assumed competitive market if local capitalists had it entirely to themselves.

These are potentially disadvantageous economic consequences of the organizational superiority of the MNC. But other, non-economic, costs may also have weight in a nationalistic welfare balance sheet. National ownership of the means of production may be intrinsically desirable. MNCs may adversely affect social, cultural and political values. Patterns of development may be distorted, local élites reinforced and the road to “socialist” change blocked. The inclusion of such criteria in almost any “nationalist” or “radical” critique of the MNC is significant. However valid, they are necessarily subjective and incompatible with economic assessment of the value of MNCs to developing countries.

(3) Technology

… Technology, rather than capital, is now usually taken to be the main contribution made by MNCs to LDCs and…two questions have to be asked in each case. First, could the same benefits have been obtained by the LDC except through the medium of a multinational so that some of the associated costs could have been avoided: for example, by licensing indigenous producers? Secondly, and characteristic of the “radical” critique, are the technologies imported by MNCs “appropriate” to the circumstances of LDCs? For example, are they excessively capital-intensive and do they serve the desires of an élite rather than the “basic needs” of the masses? Such questions, of course, reflect normative assumptions: there are “optimal” patterns of production which are “appropriate” to the special circumstances of LDCs and should therefore be preferred on welfare criteria. The same applies to another MNC specialty, marketing skills. However valuable these
may be in stimulating an internal market and domestic production, MNC advertising may create “unsuitable” tastes, inducing the starving to spend their money on Coca Cola rather than on milk.

To sum up, the common denominator of such reservations is that the apparent economic benefits of the types of industrial activity normally associated with MNCs may be outweighed for LDCs either by the economic costs included in the “package” in which they are imported or, alternatively, by the fact that they are “inappropriate” by other, non-economic criteria. In either case, the standard answer is that it is up to the host government to decide and to control. But on this also most radical critics of MNCs tend to question whether the state in most LDCs can match up to its assigned role. If not, if it is too weak or class-dominated, if its officials are too ignorant or corrupt to promote “suitable” policies, then sovereignty becomes no defence against the MNC. So, ultimately, our assessment of the probable and potential impact of MNCs on host countries must turn on how effectively the host state performs its role as maker of policy and defender of the “national interest.” Let us, therefore, finally consider the capacity of the nation-state to use and control the potential of the MNC and whether the multinational constitutes a form of economic imperialism after the end of formal empire.

STATE SOVEREIGNTY AND THE MULTINATIONAL

It is only when one poses these questions that the fundamental difficulty of studying MNCs becomes fully evident. Unless one is an unqualified believer in dependency theory, or a neo-Marxist of the sort denounced by Warren and Emmanuel—both of whom reject the possibility that a nonsocialist state could wish, let alone be competent, to subordinate class or sectoral interests to those of the society as a whole—there is no possibility of providing a definite answer. This is not to be evasive: there are two sound reasons for agnosticism.

First, there is very little hard information on the operations of MNCs. Their operations can be studied at two levels: the general and the specific. Most published information is general, based on surveys of a very large number of firms and their activities in host countries. So far as it goes, such information is valuable as the basis for making general statements concerning both the source and distribution of FDI by country of origin and investment and as between the several hundred largest MNCs. It also throws light on methods of entry into host countries, the extent of local equity holding, output, profitability according to published accounts, receipts from royalties and fees, expenditure on R&D and on the contribution to export earnings. Such information makes possible broad statements indicating the importance of the economic role of the MNC in the modern world economy; but it has two obvious limitations. It gives no insight into the motivation and internal operations of individual corporations or the attitudes and policies of host governments; and, consequently, it cannot provide the evidence by which we might assess the “welfare” implications of FDI as we have defined it. The first need can only be met by detailed research on particular corporations with deliberate emphasis on the issues raised by theorists.
But even if the flow of specific information increases greatly (and both large corporations and host governments are commonly very reluctant to allow their inner secrets to be revealed) there is a second reason why no comprehensive answer could be given on the compatibility of the MNC and the welfare of host countries. Each corporation and each country is a special case. Individual examples can neither prove nor disprove general propositions. Thus no general theory of the MNC and its relationship with the sovereign state can be drawn up. At most I can suggest some broad propositions that seem to be reasonably consistent with the facts of the case in the 1980s. Let me, therefore, attempt a broad answer to the main question posed in this chapter: what is the role of the MNC in the world economy? Is it a key weapon in the armoury of a new informal imperialism?

The fundamental point is that while the public image of the MNC in the Third World has remained virtually static for over two decades, the reality has changed, and is changing very fast. In the 1950s, when the alarm bells started to ring, the common assumption was that most MNCs were American-owned, expressing the United States’ postwar economic and political hegemony throughout the world; and that most of these enterprises extracted oil or minerals, or ran plantations. Neither assumption was valid then, and they have become almost entirely untrue three decades later. Western Europe has now achieved rough parity with the United States as the source of FDI; and in the Third World the focus of MNC activity has shifted decisively from “exploitation” of “irreplaceable” reserves of oil and minerals or growing tropical crops to investment in manufacturing for reexport or for local consumption. This structural change is reflected in the critical literature: where once Standard Oil and United Fruit were the villains, now it is the multitude of industrial companies who are accused of debauching indigenous tastes and extracting Baran’s “surplus” through excessive profits and the abuse of transfer prices, royalty payments, and so on. My argument is that the change in the functions of the multinational has significantly affected its relationship with the sovereign state in which it operates; and that, even if accusations of “imperialism” might have been to some extent justified in a Third World context in the past, they are much less relevant in the present.

The most legitimate criticism of MNCs has always been that their very function was to make competition imperfect, distorting the economic process and obtaining a “monopoly rent” by internalizing the market. This makes them agents of a new mercantilism, which has historically tended towards some form of imperialism. Is this, indeed, their common aim and, if so, why can private firms frustrate market forces in this way?

First, the question of intention. There are a number of alternative theoretical explanations of why large business firms should wish to establish overseas subsidiaries, and all assume that they do so to obtain a higher overall profit by “internalizing” their total operations than they might do by using some alternative strategy. Their reasons, however, vary according to the nature of their activities and the environment in which they operate; and the main contrast is between the extractive and utility companies, on the one hand, and those which manufacture in host countries on the other.

The salient fact about the utility, oil, mineral and agricultural corporations is that, by and large, they grew in a more or less free-trade environment: that is, the
things they dealt in were seldom subject to protective duties, quantity controls (except in wartime), or tariffs. These firms engaged in production and trade in commodities for many reasons, but most did so either to achieve vertical integration within a single firm, or to sell to third parties on the international market. In both cases, however, and also in that of public utilities, one of their primary aims was to erect some form of monopoly as a defence against the risks of a competitive free-trade market. Oil companies, primarily concerned with refining and marketing, nevertheless bought leases of oil deposits so that they could control the price of their raw material and balance supplies from low- and high-cost areas within their global operations. Mineral firms and agricultural producers were both notorious for using monopoly, monopsony, cartels, rings, and so on, to force down the price paid to host governments, peasant producers, and so on, and conversely to force up the price they could charge to consumers.

Thus MNCs of this type attempted to create some form of monopoly in a free-trade environment as their best means of maximizing profits. As an important byproduct, they tended also to be “imperialistic.” Because their activities commonly depended on concessions (for oil, mines, plantations) or, if they were engaged in trade, on satisfactory access to the producers of their commodity, relations with host governments were of crucial importance. And because much of their business was done with the relatively weak states of Latin America and the Middle East and with the early post-colonial states of Africa and Asia, they commonly achieved a position approaching dominance over their hosts: hence the concept of United Fruit’s “banana republics” and the near-sovereignty of Standard Oil or Anglo-Iranian in some parts of the Middle East. In this sense it was characteristic of MNCs engaged in the commodity trade, and some in public utilities (ITT, for example) that they established “informal empires” as a response to the need to establish monopoly as the basis of profitability in a competitive environment.

Exactly the opposite is generally true of the modern manufacturing multinationals. They are, by their nature, interested in freedom of trade outside their protected home base. They do not need physical control over their markets. Above all, they normally engage in manufacture in other countries as a direct response to some form of obstruction in the market, which either threatens an established export trade or offers opportunities for higher profit through some form and degree of monopoly in a previously competitive market. The chronology of FDI in manufacturing shows this to be universally true. The timing of the great spate of direct industrial investment, which started in the 1920s in Britain after the McKenna duties of the First World War, and from the 1950s in most LDCs as they adopted severe protectionism along with their new independence constitutions, shows that (with probably the sole exception of post-1950 American “off-shore” industries in South-East Asia) the manufacturing multinational was conjured up by protectionist governments. The effect was a double distortion of the market. “Effective protection” raised domestic prices above international prices, so creating for the first time a market that might be profitable for modern industry, despite the restricted demand and high production costs of the Third World countries. For their part, the multinationals, compelled or tempted by protectionism to jump the tariff wall, further distorted the market by exploiting the opportunities provided by their
monopoly of technology and know-how. Thus, as Hymer argued as early as 1960, it was indeed imperfections in the market that attracted MNCs to undertake overseas manufacturing; but in the Third World these imperfections were created by the protectionist state.

If, then, the power held by the MNCs in the Third World is in any sense “a New Imperial System” (or perhaps a “third colonial occupation”) then it must be said that the gates were opened from the inside. But we must not beg this question. Empire means the imposition of external authority, the transfer of the power to make final decisions to a central metropolis. Hymer’s concept of a world hierarchy assumed that senior corporate executives in Manhattan could determine what happened in Manchester, Bombay, or Nairobi; that the power of the great corporations was greater than that of small or even middling states. Is this really so, or is his New Imperial System merely a fable?

Paradoxically, there was more substance in Hymer’s vision in the past than when he saw it and there is still less in the 1980s. His prototypes were the big utility and extractive corporations. These, as we have seen, were a special case. They needed power to achieve their objectives and were able to hold it because of the weakness of many of the states (including some colonies) in which they operated. They were, indeed, states within states, largely autonomous, latter-day feudal barons, able to bargain, even dictate, because of the importance of their activities to the host states. It was precisely because they were so powerful that the new sovereign states found it essential, whenever they had the power, to destroy them: in many countries effective decolonization consisted in the nationalization of telecommunications, oil wells and copper mines.

It is entirely different with the modern, manufacturing multinational. Its very presence in the host country reflects local policy decisions: it is a genie summoned to serve protectionism. It depends for its profit on the continuance of that policy. It has little power because, in most cases, the only sanction it could impose on a hostile state would be to stop production; and, since this is seldom for export, the economic consequences for the host would be negligible. Physically, moreover, a factory bears no resemblance to a large mine or plantation. It is in no sense autonomous or remote; not a city-state. It is easy to starve out by simply refusing licenses for essential inputs. Indeed, virtually the only threat the modern manufacturing multinational can make to its host government is that unreasonable treatment may inhibit further foreign investment or technological transfer. The threat is real but seldom compelling. A determined state will normally act as it wishes and risk the consequences.

My conclusion, therefore, is that in so far as there is a latent tension between the power of the MNC and that of the sovereign host state, it is the state that now holds most of the cards and can determine the rules of the game. At the macroeconomic level it can adjust its policies in such a way that it is no longer possible for MNCs to make “excessive” profits or attractive for them to import factors of production. At the administrative level, it is always possible to use anti-trust laws against excessive concentration; to impose quotas, limit prices; above all to insist on a minimal level of local participation in the equity and of nationals in employment. Nationalization is a rare last resort simply because experience
shows that very large foreign corporations will normally accept the bid from the very small states.

Yet we must end on a note of caution. I have argued that the modern multinational chief executive in Hymer’s allegorical skyscraper is not the ruler of an informal overseas empire. The humblest LDC is in no danger from the power of a multinational which is engaged in manufacturing and technology transfer. But there are other, more subtle dangers. The main danger of the modern MNC to the LDC lies not in its power, but in two much less dramatic qualities: its superior cunning and its apparent harmlessness. The cunning of an MNC is one aspect of its managerial efficiency and its ability to take a global view of its interests. Without it an MNC could not operate successfully in Third World states with their jungle of regulations. The problem is to draw the line between cunning and dishonesty as, for example, represented by abuse of transfer-pricing; and much of the substance in criticisms made by “nationalist” and “radical” critics of MNC behaviour amounts to the accusation that this line has been crossed. Lall’s study of the pharmaceutical industry supports the general prejudice that this is commonly the most guilty type of multinational. Yet, while such practices may cause loss to LDCs, they are unlikely to cause disaster. The real danger lies rather in the seductiveness of the industrial MNC. The benefits a foreign corporation can offer to a poor, non-industrial state are extremely attractive: an instant, advanced factory at little or no immediate cost with payments due only when, and if, the subsidiary flourishes. It is not surprising that during the optimistic “development” decades before the mid-1970s so many LDCs welcomed manufacturing corporations with open arms and failed to see the long-term risks they were running.

The analogy with much of the borrowing in which many Latin American and Islamic states in the Mediterranean indulged during the nineteenth century is obvious and the dangers equally great: on the economic side, a growing and ultimately intolerable strain on foreign-exchange earnings to pay for imported inputs and to meet the cost of repatriated profits, and so on; more generally, a host of social and political problems at home as the alien presence makes itself felt. In the later twentieth century the result will not be the formal imperialism of a Dual Control or a protectorate; but a number of LDCs have now learnt that excessive foreign investment, if coupled with inappropriate economic and social management, may lead to virtual bankruptcy, dictation by the World Bank or the IMF and possibly domestic revolution. Sovereignty, in fact, may be proof against the multinational, but it carries no guarantee against lack of wisdom; and the essential message of the “national” or “radical” critic of the MNC to developing countries should be caveat emptor….

NOTE

1. S.Lall an P.Streeten, Foreign Investment, Transnational, and Developing Countries (London, 1977), 59; italics in original.