"MULTINATIONAL CORPORATIONS AND DEVELOPING COUNTRIES"
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(1) programma
(2) Ashour, Sakr: "Business policy and practices of multinational corporations: effects on developing nations and alternative strategies of control"
(3) Gaule, Alain/Monateri, Jean-Charles: "Strategie des firmes de la construction electrique et electronique et de l'industrie GAzo-Petrochimique dans le bassin Mediterraneen"

ENTREPRISES MULTINATIONALES ET PAYS EN DEVELOPPEMENT

Vendredi 16 Décembre 1977 :

9.30 h. - Présidence Dr. EL KOSHEIRY
- Introduction Dr. EL KOSHEIRY
- M. Berthold GOLDMAN (Président de l'Université de Paris II) : Un code conduite pour les entreprises multinationales; réalisations et perspectives.
- Dr. EL KOSHEIRY (Professeur de Droit International Privé) : Du transnationalisme mondial au transnationalisme panarabe.

13 h. - Déjeuner à l'Ahram

15 h. - Présidence M. GOLDMAN
- Maître LEBOULANGER (Avocat International) : Quelques aspects de la responsabilité des sociétés multinationales dans les rapports entre société-mère et sociétés filiales.
- Maître Ali EL GHATIT (Avocat International) - participera au débat

18 h.

Samedi 17 Décembre 1977 :

9.30 h. - Présidence Dr. El Sayed YASSIN (Directeur du Centre d'Etudes Politiques et Stratégiques d'Al-Ahram).
- M. HUGON (Professeur de Sciences Economiques à l'Université de Paris X - Nanterre)
- Dr. DWIDAR (Professeur d'Economie Politique - Faculté de Droit d'Alexandrie) : Le transnationalisme vu sous l'angle des transferts de technologie

13 h. - Déjeuner à l'Ahram

15 h. - Présidence M. HUGON
- Dr. Mohamed SAID (Chercheur au Centre d'Etudes Politiques et Stratégiques d'Al-Ahram) : Le rôle des multinationales dans l'aggravation de la crise du développement.
- M. GAULE (Chercheur à l'Institut de Recherches Economiques et de Planification - Grenoble) : La stratégie des multinationales dans le bassin méditerranéen dans les secteurs de la pétrochimie et des industries électriques et électroniques

18 h.

Dimanche 18 Décembre 1977 :

9.30 h. - Présidence Dr. EL KOSHEIRY
- Dr. Hossam ISSA (Maître Assistant à la Faculté de Droit d'Ain-Chams) : La stratégie des multinationales et les intérêts des pays hotes.
- Dr. Ahmed SAQR (Professeur à la Faculté de Droit d'Alexandrie) : Les pratiques de gestion des multinationales et leurs effets négatifs sur les pays en développement
- M. BOURRINET participera au séminaire

13 h.

Participent aux débats :

- Mme. Dr. EL SIRGANY	- Auteur d'un ouvrage sur les brevets d'invention en Egypte.
- Mme. Dr. Samia RACHED	- Professeur de Droit International Privé à la Faculté de Droit du Caire. - Avocat.
- Dr. Kismat EL GUEDDAWI	- Professeur à la Faculté de Droit d'Ain-Chams. - Ancien Conseiller Juridique à l'OPAEP.
- Dr. Mofid CHEHAB	- Professeur de Droit International Public à la Faculté de Droit du Caire.
- Dr. Hecham SADEK	- Professeur de Droit International Public à la Faculté de Droit d'Alex.
- Dr. Salah AMER	- Assistant à la Faculté de Droit du Caire.
- Dr. Hosni EL MASRI	- Assistant à la Faculté de Droit du Caire.
- Dr. Ibrahim AHMED	- Assistant à la Faculté de Droit du Caire.
- Dr. Loutfi ABDEL AZIM	- Rédacteur en Chef de la revue Al Ahram Al Iqtisadi.
- Dr. Nabil SABBAGH	- Directeur de Rédaction à la revue Al Ahram Al Iqtisadi.
- Mlle. Nadia EL RAYYES	- Chargée des Relations Extérieures à l'Organisation Arabe des Sciences Administratives.
- M. Phipper	- Délégué de l'A.I.D. pour l'Egypte.
- Mme. Phipper (CAMPBELL)	- Attachée Economique à l'Ambassade des Etats Unis en République Arabe d'Egypte.
- Dr. EL ZAZZABI	- Directeur du Centre de Développement Industriel - Ligue Arabe.
- Dr. Khaled ABDEL NOUR	- Centre de Développement Industriel - Ligue Arabe.

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BUSINESS POLICIES AND PRACTICES OF MULTINATIONAL CORPORATIONS: EFFECTS ON DEVELOPING NATIONS AND ALTERNATIVE STRATEGIES OF CONTROL

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The purpose of this paper is threefold: (1) to examine business policies and practices of multinational corporations; (2) to focus on the economic and sociopolitical effects of these policies and practices on developing countries hosting the multinationals; and (3) to examine and evaluate some alternative strategies and methods to control these corporations by developing countries.

The term "multinational corporation" will be used in this paper in a broad sense to cover all enterprises that control assets, factories, mines, sales offices, and the like in two or more countries. This coincides with the meaning the United Nations Department of Social Affairs has used in reference to these corporations. The preceding definition means that the activity of the multination corporations is transnational in nature and may refer to assets, production, employment, sales, or profits made by branches and affiliates located in more than one country.

The importance of examining business policies and practices of multinational corporations in relation to developing countries is derived from the fact that these types of enterprises are playing a larger role as an economic vehicle by which developing countries are related and tied to developed market economies. Their effect on the developing countries is magnified due to the critical sectors in which they work, since they generally tend to concentrate their investments in the natural resource sector, the manufacturing sector, and the services sector. If we take into consideration that in many cases these multinationals are in a monopolistic position, in fact or in effect, the role they play in these countries is significant.

Business policies and practices of the multinational corporations are derived from the nature of these enterprises. First, these enterprises have multinational activities connected to bases located in developed market economies. Their investment, production, sales, and profits are made through branches or affiliates located in different countries and are directed from parent bases located in developed countries. A relatively recent U.N. report (1974) shows that out of the total foreign investment, most of which is owned by multinational corporations, over four-fifths of the total is owned by four countries: The United States, The United Kingdom, France, and The Federal Republic of Germany. Moreover, these four countries account for over three-quarters of the total number of foreign affiliates of multinational companies in the world. Of these four countries, the United States alone accounts for more than half of the total foreign investment in the world and for about a third of the total number of foreign affiliates. Thus, the source of foreign investment made by the multinational corporations and the parent bases of their operations in the developing countries is mostly located in developed market economies.

Second, these corporations are large in size and they tend to have an oligopolistic character. Taking annual sales as an indicator, the sales of a typical multinational corporation run into hundreds of millions of dollars. For example, each of the largest four multinational corporations has a sales volume in excess of 10 billion dollars, and more than 200 multinational corporations have surpassed the one billion dollar level (U.N., 1974). Because each of these corporations controls a large amount of assets and a large volume of sales, the oligopolistic character of the corporations is apparent. The markets in which they operate are typically dominated by a few sellers or buyers. Taking another indicator of economic concentration, foreign direct investment of these corporations tends to be concentrated in a few firms. In the United States, for example, about 250 to 300 firms account for over 70 percent of direct foreign investment. In the Federal Republic of Germany, 82 firms account for 70 percent of such investment, and the nine largest of these firms alone control 32 percent of the total. In the United Kingdom, over 80 percent of the total foreign investment is controlled by 165 firms.

Third, multinational corporations are geographically distributed but vertically integrated firms. They extract resources from one country, manufacture products from these resources in a second, and sell the products in a third. The geographical distribution of their economic activities enables them to capitalize on the special advantages of a particular country and utilize them to their own ends. The vertical and geographical distribution of their economic activities means that integration of the activities and the subordination of branches and affiliates located in different countries to a central plan and strategy is crucial to their success.

BUSINESS POLICIES AND PRACTICES

Let us examine now the business policies and practices of multinational corporations that are associated and consistent with the preceding characteristics. We will examine these policies and practices within seven areas: (1) organization; (2) investment and finance; (3) marketing; (4) production; (5) manpower; (6) research; and (7) government relations. In each of these areas, policies and practices commonly employed by multinational corporations will be described and analyzed in terms of the purposes they serve and in relation to the characteristics of multinational firms previously indicated.

Organization

The increasing size of multinational corporations and their vertically integrated character pose coordination problems for these corporations, the solution of which is sought in applying an increasing degree of centralization. In the early stages of their expansion of activities abroad, multinational firms gave considerable autonomy to their foreign subsidiaries. An analysis by Stepford and Wells (1972) of the organizational development of 178 U.S.-based multinational corporations shows that this initial stage of high autonomy leads to stages in which the autonomy of the subsidiaries is highly curtailed. Policy-making and decision-making powers of the subsidiaries tend to decline as the size of the international activities of the corporation increases. Thus, as the corporation expands by diversifying its international products or by moving into more and more foreign countries, greater interference from the home office is observed.

Although multinational corporations tend to centralize policy-making in the parent company, there seem to be differences in the degree of centralization among the functional areas policies cover. In a crucial area such as finance, centralization is more potent than in other areas.

Systematic and direct evidence on this point from developing countries is not available, but there is some indirect evidence of their general mode of operation. In a recent study by Causse and Boudeville (1976) of the University of Paris on the degree of autonomy of French subsidiaries of U.S. multinational corporations, differences were found between functional areas. The U.S. parent company kept tight hold in the area of finance. It allowed the most autonomy in the area of manpower. Differences were also found among the companies by sector. Among extractive and manufacturing industries, greater centralization was found than was seen in the service sector.

The methods by which centralized control over subsidiaries is achieved differ according to the nationality of the parent base and the size of the multinational corporation. The U.S.-based multinational corporations, being relatively larger than European-based multinationals, use more formalized procedures for organization and control European parent companies use less formalized procedures and rely on loyalty and esprit de corps of the affiliates' managers (U.N., 1974). The trend among European-based companies, however, is to use formalized organizational structure and methods similar to those used by the U.S. companies. Such a trend is a function of the increasing size and complexity of European-based companies.

The need for centralized control exercised through advance planning and scheduling by the parent base is greater when the chain of production technology is divided among different countries. In this situation production represents an integrated network of specialized processes. When each process is located in a different country, centralized control is crucial to the integrated functioning of the corporation.

There are differences, however, between the degree of autonomy given to subsidiaries, depending on the degree of similarity between host economy and parent economy. As this similarity decreases, less autonomy is given to the subsidiaries located in the host economy. Thus, a subsidiary located in a less developed country will have much less freedom in comparison with that of a subsidiary located in a developed country. The activity of a subsidiary located in a less developed country represents one element in a chain of a network most of which is located outside that country; such an isolated element becomes highly dependent on the total network and therefore on the center. Consequently, each affiliate or subsidiary in such a network is subject to a greater degree of centralized control by the parent company. This might explain why in the French study done by Causse and Boudeville (1976) previously cited, the autonomy given to the French subsidiaries by U.S. multinational corporations in areas such as marketing, production and manpower was not low. The French economy is much closer to the U.S. economy than is that of any developing country.

Centralized control exercised by the parent company over foreign affiliates is achieved through complete or majority ownership of each affiliate, although at times this control can be exercised from a minority position. The affiliate in the latter case might be tied to the network of the total multinational corporation through economic, production, or technological dependency. Such dependency compensates for minority ownership and creates enough reliance on the parent company for it to exercise effective central control. In some other cases when tight centralized control and complete subordination of the affiliates to the center is desired, full ownership is sought. These are the cases in which a novel technology is developed and the multinational corporation wishes to retain full control over it. In this event, joint ventures are avoided, as they do not allow for tight, centralized control. Similarly, when full control over markets or sources of raw materials is desired, wholly owned subsidiaries facilitate the making of decisions and the achieving of coordination at a level higher than that of the individual subsidiary.

Investment and Finance

In the area of investment and finance, policies and practices of multinational corporations are geared to achieve two objectives: to maximize the rate of profit for the parent company, and to minimize capital risk.

Examination of the investments made by multinational corporations in developing countries reveals that these goals are most easily met through investment in extractive industries. The U.N. statistics show that 10 percent of the investments of multinational corporations in developing countries were in the development of natural resources, a little less than a third in manufacturing, and the rest in trade, public utilities, transport, banking, tourism, and other services.

Multinational corporations tend to be extremely cautious in planning their investments in developing countries. The capital composition of the subsidiary reflects the desire to minimize capital risk. Locally borrowed capital constitutes an important source of funds for the subsidiaries. Multinational corporations minimize the use of owned capital as a means of minimizing risk and maximizing the rate of profit. Kidron (1965) cites evidence of foreign companies in India which marketed issues at 50-100 percent above par.

Despite the practice of maintaining a fairly high percentage of subsidiaries' capital in fixed interest debt, multinational companies are able to make a high rate of profit on their foreign operations. The profit rate from foreign investment in developing economies is higher than that from developed economies. For example, U.S. and British firms tend to receive higher rates of return in the third world than in their home economies (Turner, 1974). Thus, U.S.-based multinational corporations earned 19.2 percent on their investments in Africa during the period 1960-68; 15.9 percent in the Middle East, the Far East, and Oceania. In contrast, these firms earned only 12.6 percent on investments in Europe and 8.9 percent in Canada (DeCubas, 1971). If we examine the period 1965-1968, investments of U.S. multinational corporations were twice as profitable in developing countries as in developed countries (U.N., 1974).

A closer examination of the financial practices of multinational corporations reveals that the apparent high profit figures of foreign affiliates in developing countries is liable to great distortion. The actual profit made by the parent company from its foreign affiliates is generally higher than the profit reported in the books of the affiliates. Dividends and royalty payments do not constitute the only means whereby the parent company withdraws profits from a foreign subsidiary. Profits can be made through the manipulation of transfer prices of goods and services supplied by the parent company or by other affiliates. Such prices are usually higher than market level, thus inflating the cost in the books of the subsidiary. This practice reduces the taxable profit of the subsidiary and also reduces dividends paid to local owners in the case of joint ventures.

The study by Constantine Vaitsos (1970) of foreign companies in Colombia provides strong evidence on the phenomenon of manipulating transfer prices to the benefit of parent companies. In a sample drawn from pharmaceutical, electronic and rubber companies, Vaitsos compared prices charged by parent companies to their affiliates in these industries with market prices. It was found that seventeen firms in the pharmaceutical industry overpriced by 165 percent; eleven firms in the electronic industry overpriced by 54 percent; three firms in the rubber industry overpriced by 40 percent. Ironically, some cases were found in this study in which a multinational corporation was selling machinery 30 percent more cheaply to a Colombian competitor than to its own subsidiary! Vaitsos found that in the sample of the pharmaceutical industry overpricing constitutes 82.6 of the "effective return" made by the subsidiary, which includes royalty payments, reported profit, and intermediate product overpricing. Vaitsos concluded that if Colombia could have reduced the prices charged to its intermediate goods and capital goods by an average of 20 percent in 1968, it would have saved the foreign exchange equivalent of more than 50 percent of all of its exports, with the exception of petroleum and coffee (Turner, 1974, pp. 59-60).

Kidron's (1965) study of three multinational corporations in the tire industry in India (Dunlop, Firestone and Goodyear) provides evidence similar to that found by Vaitsos on the practice of undervaluing profits of subsidiaries through the manipulation of transfer pricing devices.

The phenomenon of overpricing intermediate goods and services as well as capital goods provided by the parent company to its foreign affiliates explains why some corporations (in the auto industry, for example) accept a relatively modest rate of reported profit on their foreign investments. Returns from overpricing the goods and services which multinational corporations sell to their subsidiaries compensate for such modest rates of profit.

It should be noted that the practice of overpricing is applied to the capital contributed by the parent company at the point of initial establishment of the foreign subsidiary. In some cases, the capital goods provided constitute the share the parent company contributes to the capital in joint ventures. In such cases, the actual rate of profit from foreign investment is higher than the reported rate, since contributed foreign capital is actually less than reported.

The above practices of multinational corporations enable them to evade taxes on their foreign investments. The differences in the tax rates among the different countries hosting their investments is utilized to their benefit by greater evasion of taxes in high tax countries. Thus, they attempt to minimize the tax bill by establishing an artificial transfer price which will deflate profit earned in countries where taxes are high and inflate profits earned in countries where the tax burden is low (U.N., 1974).

It should be noted that the amount of reinvested profit made by multinational corporations in developing countries is relatively low. Most of the profit made in the subsidiaries is transferred outside the host country to the parent company. These profits are reinvested either in the parent company or in other areas. On this point, Michael Tanzer (1969) notes that between 1900 and 1960 multinational corporations working in the oil field in the Middle East reinvested only 11 percent of profits in the same area. Turner (1974) also observes that U.S. oil companies in Latin America were reinvesting only 5 percent of profits during the 1960's (p. 59).

Marketing

The basic marketing strategy of multinational corporations in developing countries is to deal with these markets as an extension of the home market. Thus, the choice of sites of subsidiaries and affiliates serving as marketing outlets in developing countries is based on how similar the demand pattern in these markets is to that in the home market. For consumption goods, and especially for durable goods, the marketing strategy used by multinational corporations in developing economies is geared to the elite classes of these economies. These classes have a high purchasing power and a westernized consumption pattern which makes them easy targets for the multinationals. At the early stages of entering a market, extensive advertising and sales promotion devices are used to create needs among these elite classes similar to those used in the developed societies. This strategy of initial cultivation of the market is necessary if the product introduced was originally designed to fit consumption needs of another society.

When this initial stage of cultivating a market in a developing country is sufficiently successful, and after demand has been stabilized, production sites are established to serve this market and closer markets in the region.

When the subsidiary is serving a local market or closer markets in the region, the multinational corporation finds it advantageous to have local partners. These partners, due to their knowledge of the market and to their local connections, can increase the speed of entry into the local market and can also increase the number of markets approached simultaneously.

An examination of the literature on marketing practices of multinational corporations reveals that freedom given to subsidiaries concerning buying, exporting, and pricing is often curtailed. Policies and decisions in these areas are set to maximize the interest of the total corporation. The evidence indicates that many restrictive marketing practices are imposed on the foreign subsidiaries to the benefit of the parent company.

Sources of supply of materials and intermediate goods are often determined for the subsidiaries. In many cases, the source is the parent company itself or one of its other foreign subsidiaries. Such practices restrict dealing with local suppliers and increase the imported content of the goods produced by the subsidiaries.

The practice of restricting the purchase of materials and intermediate goods used as inputs by the subsidiary to the parent company or its foreign subsidiaries is integrated with the practice of overpricing of transfer goods. This overpricing is usually applied to the transfer goods used by subsidiaries located in high tax areas and/or taking the form of joint ventures (where a local partner exists). Since there is often no market price for the goods in question and their pricing is usually on the basis of cost plus an amount of profit, the setting of the transfer prices is quite arbitrary.

The restriction of purchases to certain sources is evidenced in a number of studies on the purchasing practices of foreign subsidiaries. Michael Tanzer (1969) refers to the case of the oil industry in India, which had a battle with the Indian government over sources of supply. The government tried to get the oil multinationals to rely on inexpensive Russian crude oil in their Indian refineries. The companies refused, and insisted on using their own relatively expensive supplies. Kidron's (1965) study of the Indian economy provides evidence that sole-supplier agreements specifying that third world operation can only buy from a specified source are so common that substantiation is unnecessary. The evidence he cites from a 1955 investigation shows that some Indian subsidiaries, due to restriction of their sources of supply, were paying up to double the market price of their raw materials and intermediates. The study by Vaitsos on foreign companies in Colombia further indicates that restriction of sources of supply for Colombian subsidiaries and affiliates was quite common. In the chemical and pharmaceutical industries, for example, he found that out of thirty-five contracts, only two explicitly permitted the Colombian subsidiaries and affiliates the free use of raw materials from sources of supply chosen by them.

Similar restrictions also characterize exporting. Exports of subsidiaries and affiliates might be restricted to certain markets. The multinational corporation exercises these restrictions to maximize its over-all foreign sales, even if foreign sales of some of their affiliates are not thereby maximized. Turner (1974, p. 55) has pointed out that third world nations believe that the parent company keeps the most profitable export markets for itself. These restrictions are often set to curtail competition among the corporation's own affiliates.

The evidence on export restrictions has been provided by a number of studies. A report by the Reserve Bank of India (1968) shows that 45 percent of 1051 joint ventures and licensing agreements in effect in 1964 in India had explicit restrictions on exports. The study by Vaitsos (1970) on foreign companies in Colombia indicates that export restrictions were common among these companies. He found that only seventeen out of seventy contracts in the pharmaceutical industry allowed affiliates the freedom to export. In the chemical industry, there were eleven cases in which exports were restricted and seven where exports were permitted. In the textile industry, the score was eleven to one. Kidron's study on India confirms such practices. He found these restrictions to be almost universal. When exports were allowed to the Indian affiliates, they were confined to certain narrow neighboring markets.

Production

The decision by multinational corporations to start production sites in developing countries is usually taken after certain stages of the product cycle have taken place. It is only during the stage of standardization and large scale production that these sites are established. Vernon (1966) has analyzed the stages of product cycles of multinational corporations, and indicates that industrial production moves to developing economies only after the product reaches a high level of maturity in the market and when its technical specifications and its methods of productions have been greatly stabilized.

Multinational corporations have a production strategy of distributing the different processes and stages of production among different countries. This stragegy is applied even when the different processes or stages represent links of an integrated technological chain. Such a distribution enables them to capitalize on the specific contribution each economy can provide to particular links of the chain. More important, such a strategy is used as a means to protect the total technological chain against possible rivalry and to enable the parent company to manipulate transfer transactions among the affiliates and subsidiaries.

The links of the production chain might belong to one of the following three types:

1. Extractive production (agriculture and mining).

In this type production usually stops at the limits of this stage. The rest of the production links following extraction exist outside the country, and in some cases, such as the oil industry, they are located in developed economies.

2. Intermediate production. The production links here represent processes or stages located somwhere in the middle of the technological chain. They may represent the production of certain parts or elements to be assembled or mixed elsewhere.

3. Final stage production. Here the production links represent a stage close to the end of a technological chain such as packing or assembling.

Multinational corporations tend to locate production links belonging to any or some of the above types in developing countries, so that the total technological chain will not be integrated in a single country.

An examination of the type and level of technology exported to developing economies by multinational corporations reveals that it is capital-intensive technology that is being transferred now to developing countries. In the past, only the extremely labor-intensive technology went to developing economies, while capital-intensive technology was kept in developed economies.

The technology used by production affiliates of multinational corporations is also of high level, including the use of highly sophisticated equipment. This type of technology is usually more productive and more cost reducing. It uses less but highly skilled manpower than the less sophisticated technology.

The capital-intensive and highly sophisticated technology used by multinational companies is usually developed to suit the economies of the parent companies in which initial sites of production originally started. The price of such technology taking the form of royalty and license payments by the affiliates to the parent company is usually high. Technology transfer is used, therefore, to manipulate costs and to increase indirect returns going to the parent company.

Manpower

The capital-manpower mix used by multinational corporations in developing countries varies depending on the type of economic activity (e.g., manufacture, service, etc.) performed. However, the level of technology utilized reflects greater need for highly qualified manpower.

To attract the best qualified personnel suited to the high technology they use, the wage rates offered by multinational corporations to local personnel are much higher than the going rates in the parent economies. But these rates, by local standards, are high enough to enable the multinationals to attract the cream of manpower available in the local market.

Top and high level jobs might not be assigned to local personnel, but to personnel of the parent nationality. These individuals usually occupy positions serving as liaisons between the parent and the affiliate or other positions of a crucial nature. When such mixture of employment exists, wage rates differ depending on the nationality of the employee. Foreign employees, especially those from the country of the parent company, are usually paid higher wage rates with greater fringe benefits (e.g., housing, transportation, tickets to visit the home country) than are local citizens.

When local personnel are hired for managerial and top jobs in affiliates and subsidiaries of multinational corporations, they are screened not only on the basis of competence, but also on their connections with and influence on government agencies and the local community.

Training of managers is used as a means of achieving greater standardization of policies among subsidiaries. Such training is often used as a substitute for direct centralization of policy and decision-making. Management training and development programs are usually provided on centralized bases, and are supervised by the parent company. The content of such programs often aims at building loyalty among managers of host-country nationality to the parent company, even when such loyalty appears to be in conflict with the managers' national interests.

Concerning labor relations, it is noticeable that multinational corporations select their sites in countries where labor relations and union movements are generally backward. They often try to get concessions from local governments to apply anti-union measures.

Even when national unions exist, multinational corporations possess greater power in facing these unions. The ability of the multinational corporation to transfer production sites from one country to another, and to increase production in one country to compensate for a decrease or stoppage (due to strikes) taking place in another, decrease greatly the bargaining power of any national union facing a multinational corporation.

<u>Research</u>

Multinational corporations, due to their great resources, are able to use different developments in science and technology which might have been undertaken elsewhere and apply them to the development of new products or new processes of production. They also undertake innovative research on their own. However, such research is generally financed by the corporation only when it is of practical development and of substantial market prospects.

The bulk of research and development expenditure of multinational corporations is conducted by the parent corporation or in the home country. In 1966, for example, 94 percent of the total research and development budget of U.S. multinational corporations was spent in the U.S., while only 6 percent was spent abroad (U.N., 1974, p. 56).

For developing economies, the flow of technology and the payment for it move in one direction. The multinational corporations transfer technology to developing nations, but they do not activate the processes of developing new technology in these nations. Thus, payment by these countries for the technology they import in the form of patents, licenses, know-how, trademarks, management and technical services go in one direction, from the developing country to the parent company.

It is often observed that the parent company monopolizes the research and development link of the technological and production chain. Foreign affiliates do not carry out the initial functions of research and development.

The location of research and development functions in the parent company provides the multinational corporations enables them to develop technologies suitable to the conditions of their parent economies. Only after the novel technology and products are stabilized and used on a large scale basis, they then could be transferred to developing nations.

Government Relations

Multinational corporations cannot make good business unless they develop good relations with, and exercise some influence on, governments of host countries. They have to get the approval and support of the governments of these countries. They usually try to convince governments that, due to the great risks they undertake in investing in developing economies, certain special advantages and exemptions should be granted to them. They try to prove that such treatment is necessary for them to perform the developing role they claim to provide to these economies.

The means they use to get the special treatment and concessions vary, but these means are not always either direct or ethical. Multinational corporations often use their parent government to exert pressure on the government of the developing country to provide them with the special demands and concessions they request. They often try to buy their demands through various forms of bribery to top government personnel. They may pay to some political leaders and finance their political campaigns. Such payments are given on promises by these leaders to provide special treatment when they rise to power.

Multinational companies do not only take protective measures to secure their interests by building rapport and buying loyalty of influential personnel in government and in politics. When they find their interests being jeopardized or threatened by government actions, they may try to undermine the government by planning and financing (with the help and support of the home government) political disruptions and/or political and military coups.

EFFECTS ON DEVELOPING NATIONS

Economic Effects

Proponents of multinational corporations claim that they help developing nations by providing the scarce capital they need, and by improving their balance of payment through the import-substituting and export-substituting industries they establish. Their effects on economic development of these nations are claimed to be positive.

Such a claim is not always valid. On the contrary, the abusive policies and practices of multinational corporations may retard development rather than accelerate it, particularly in the absence of effective control over their activities. Let us examine the negative effects of these corporations on the economic development of developing nations in the absence of such control.

First, multinational corporations often retard the process of capital formation, and may even reverse it. By means of elevating the cost of capital goods, as well as the cost of other transfer goods and services provided by parents or other foreign affiliates, they often exaggerate the figures of the inflow of capital and resources provided to the developing economy. On the other hand, the relatively high profit rates are mostly transferred outside the country. This makes the net flow of funds and resources onesided. The demonstration of that is simple: from 1960 to 1968, for example, while one billion dollars or so of capital was being transferred annually to U.S.-controlled subsidiaries in less developed areas, about 2.5 billion dollars were being withdrawn annually in the form of income alone. If withdrawals in the form of royalties and overpricing of intermediate goods were added, the figure might be much larger (Vernon, 1972, p. 221).

Further evidence of the one-sided net flow of funds could be obtained from a recent U.N. report (1974). The report indicates that in 1971 U.S. multinational corporations generated an outflow of capital of 4.8 billion dollars for direct investment abroad and an inflow of approximately 9 billion dollars in the form of interest, dividends, royalties, and management fees. These figures indicate that the net flow is negative from the point of view of developing nations. They mean that multinational corporations, contrary to what they claim, "decapitalize" the economies of developing nations.

Second, policies and practices of multinational corporations often conflict with development needs. In addition to their draining of national resources, they seem to be unconcerned about employment goals or popular consumption needs. The capital-intensive technology they employ, the "truncated" nature of their activities (being dependent on abroad), makes their contribution to employment trivial. Furthermore, when these corporations serve the local market, they usually fulfill the consumption needs of the elite classes in the society. They generally reduce the average savings by creating high consumption aspirations among all segments of the population. These aspirations are usually beyond the capacity of the economy. They are also in conflict with the rationalization of consumption and mobilization of savings needed for development.

Third, multinational corporations are instruments by which developing nations find themselves tied to and dependent on external forces. The fact that each subsidiary existing in a country is a part of a network most of which exists outside the country, and that this subsidiary is dependent on such an external network rather than on local forces, creates a state of dependency. The subsidiaries tend to be more responsive to external than to internal influences. Depending on the relative position that foreign subsidiaries occupy in a particular economy, the foreign investment sector may be a real hindrance to national development, planning and control.

Social and Political Effects

As a part of their economic strategies, multinational corporations try to westernize the affluent segment of the population of developing economies. They reinforce the distinct position of the elite class. Such a class is usually offered employment opportunities, high wages, as well as a way of life similar to that of the west. The employment policies of these corporations create an elite labor group which becomes isolated from other labor groups. Such policies and practices increase social and class differentiation already present in developing nations.

The social problems created are usually magnified when we take into consideration that multinational corporations often choke local enterprises without absorbing the unemployed labor which they help to create. Furthermore, these corporations contribute almost nothing to the solution of the high unemployment rates existing in developing nations.

Their interference in internal politics, and their use of seductive means of influencing government officials to gain special privileges or to evade regulations promotes political corruption in politics and in government. The financial power they possess and the easy access they have to the top hierarchy in government and in business enables these corporations to exert influence on the domestic political processes to their liking (U.N., 1974). The extensive bribery paid by these corporations to government officials explains why so many poorly judged foreign investments are established in developing countries.

The existence of multinational corporations in a certain nation might, sometimes, be a hindrance to the development of an independent foreign policy. The dependent economic ties to the economy of the parent companies often prevents the government of the host nation from taking independent foreign policy stands. The multinational corporation often serves as the vehicle by which the parent government achieves such objectives. On the other hand, host governments are often reluctant to pursue policies in respect to multinational corporations that are consistent with their national interests. They may fear the repercussions of negative reactions from home governments (U.N., 1974, p. 49).

ALTERNATIVE RESPONSES OF DEVELOPING NATIONS

The increasingly visible problems created by multinational corporations in developing nations have generated concern. The original reception given to these corporations in the host countries in the hope that they can serve as vehicles for scarce capital, modern technology, business and managerial know-how, and a link to world markets, all of which these countries need, has turned into caution and worry about their negative effects on development. Responses by developing nations to these negative effects have varied. Some nations have taken unilateral measures. Others have tried multinational control.

National Control

In the search for solutions, some governments have taken radical steps through nationalization and expropriation. Others have blocked certain sectors against foreign investment, reserving them for nationals only. In some other countries, measures of control have been tried on foreign firms.

When national control has been attempted, it has aimed at reducing and containing the possible negative effects created by the malpractices of multinational corporations. These controls may include some or all of the following:

1. In a number of countries, there has been a move to establish some form of a central body for screening foreign investments on the basis of value added, employment effect, balance of payment effect and other economic and social criteria.

2. It has been suggested that new investments would be permitted only after some form of competitive bidding. Competition could also be introduced whenever multinational firms show signs of ignoring the interests of the country concerned. This strategy of playing the multinational corporations

against each other has a greater chance of success when the corporations are not from the same country (Turner, 1974, pp. 98-99). The possibility that corporations in the same sector will coalesce or coordinate their interests is greater when they are of the same nationality.

3. A concession period for foreign investment could be set at ten to twenty years. At the end of such a period, control could be transferred to local hands. Transferring ownership to local hands is easier when local participation exists in the initial investment to guard against the possible over-exploitation of the investment before the end of the allowed period. It is possible to devise a scheme such as the one used by Venezuela in the oil industry, whereby the firms put money into a central fund, and if at the end of the concession period it is adjudged that the assets in question are in bad condition, the sum will not be returned (Turner, 1974, pp. 109-110).

4. Certain requirements regarding investment policies could be demanded. Reinvesting a certain amount of

profit locally could be demanded to control the outflow of funds. Algeria in the oil field demands some form of compulsory reinvestment. Such a policy might put pressure on the multinationals to consider diversifying into new industries, since there are limitations to the expansion of their traditional activities in any one country (Turner, 1974, p. 102). Restrictions on local borrowing could serve as a pressure to increase the foreign capital component contributed to the investment.

5. Other demands to have favorable effects on the local economy could be required. Countries may require the companies to replace their imports with locally made products and produce products with a given proportion of local value added. Foreign investment projects could be judged on the basis of fulfilling consumption needs consistent with development requirements. Companies may also be required to use less capital-intensive technology and to have visible positive effects on employment. Wage policies could also be examined to make sure of their effect on national wage structure, on the local labor market, and on the supply of labor to other local firms.

6. Governments could require that certain percentages should of sales should be exported. They may also put pressures on multinational corporations to tie their ability to import to their exports. The Mexican government has put such pressure on foreign automanufacturers. Such requirements may limit, to some extent, the balance of payment problems multinationals create.

7. Pricing and costing practices of multinational corporations could be put under close scrutiny by governments to limit the abusive manipulation of transfer prices. Such control requires that up-to-date records of market prices of goods and services used or exported by foreign subsidiaries would have to be kept by some government agency.

8. Effective external control and surveillance by the host government over the affiliates and subsidiaries of multinationals may require the establishment of a central coordination and control body representing various relevant ministries such as planning, finance, mining, industry, trade, and agriculture. Such an organisation should represent the interest of the different ministries. To be able to perform their

contral and surveillance function, they have to be given access to certain company records and operations.

9. Control could be achieved through internal means by requiring certain percentage control by local owners. Such control is more effectively achieved when the host government participates in the ownership of the subsidiary. Other forms of internal control might be to require government representatives to sit with the managers of the subsidiary or with the parent board to discuss matters of company policies and plans.

The Need for Multinational Control

National control over multinational corporations has serious limitations. A country could request certain adaptations in policy and may attempt to implement certain regulations. But the ability of any one country to gain concessions from multinational corporations is limited as long as those corporations can play one country against another.

The power of the multinational corporations in facing any one country is great. The size, monopolistic position and transnational activities of the multinationals weaken the bargaining position of any single developing nation to handle the problems created by or to limit the power of multinational corporations. Indeed, no single national jurisdiction can cope adequately and effectively with the global phenomenon of the multinational corporation. The situation of developing nations is worse in this respect than that of the developed nations. Most developed host nations belong to a network of advanced economic and political relationships that allow far more successful economic and political bargaining (U.N., 1974, p. 51).

The trap developing nations often fall into is that through their efforts to attract multinational corporations by offering generous incentives and concessions, they often appear to be bidding against each other. Multinational corporations capitalise on the lack of coordination among developing nations.

Some form of multinational control among developing nations is needed. Such control could be achieved through the development of an economic pact. This pact could serve as a coordinating body between the member nations in bargaining with multinational corporations at the initial stage of investment and in controlling their activities at later stages.

The pact could set a ceiling on incentives and concessions any member country could offer to multinational corporations. Certain criteria and guidelines could be developed and applied commonly to the investments these corporations make. Model contracts could be developed and used in common by the member nations.

The pact could be based on regional and/or sectorial bases. On a regional basis, a group of developing nations located in a given region could form an economic coalition. The Andean pact of Latin America is a good example of such a regional coalition. By increasing the size of the bargaining unit from national to regional, the six member countries of the Andean pact are able to impose rules upon and derive concessions from multinational enterprises that could not have been realized by any one of the member countries acting alone. Furthermore, by expanding the size of the market to which a foreign investor can gain access, the member-countries provide an inducement for the potential investors to do business under the rules of the region (U.N., 1974, p. 96).

When the pact is based sectorially, nations using multinational corporations belonging to a particular economic sector could form a coalition. The example of such a sectorial pact is the OPEC. The likelihood of success for sectorial pacts depends on the degree of control the countries have over the sector in which the corporations internationally operate. The greater the percentage of the sector they control and the greater the demand on that sector, the more bargaining power the pact would have. These conditions explain how OPEC was able to bargain effectively with the oil companies and to achieve great success in the interest of the member nations. Its success depends on the semi-monopolistic hold on oil resources, as well as on the rising demand on oil during the late sixties.

Relying Less on Multinational Corporations

The hazards multinational corporations often create for developing nations and the inability of these nations to exercise effective control over direct foreign investment by these corporations have moved the developing nations to find a way out of these hazards. For some nations where capital availability is not a problem, the know-how of multinational corporations could be rented or bought. Thus, some nations have tried to develop contractual agreements with the corporations by which the corporations provide the technology, know-how, and managerial skills under arrangements not including direct investment. These agreements may include one or more of the following types:

1. Licensing. In this sort of agreement, the multinational corporation provides its technology and know-how by making available the facilities required for manufacturing their products in a certain

country for a specified fee and/or a specified share in profit. These facilities may include machinery, equipment, materials, and intermediate goods.

2. Management Contracts. Under this arrangement, the multinational corporation agrees to perform certain managerial functions but without sharing ownership of the enterprise. Thus, the corporation provides some of its managerial personnel to run the nationally-owned firm and provides the use of some of its managerial systems for a certain period of time and agreed-upon fees.

3. Turnkey projects. In this form of contractual agreement, the multinational corporation carries out the task of constructing a factory or an enterprise that upon completion is ready for operation by local owners and/or managers. The corporation provides the facilities required and serves as a contractor without sharing ownership of the enterprise established.

4. Consultancy. Under this arrangement, the multinational corporation provides consultancy services to government or to local enterprises on technical matters. Such services are provided for a certain

fee, but the goal of the corporation is to get closer to the opportunities that some of these consultancy services may turn into management contracts or turnkey projects where the fees are much higher than consultancy fees.

The above forms of contributions by multinational corporations to developing nations without direct ownership or control are not common. Generally, corporations resent these forms, since they include dilution of their control and a great reduction in their return. The few corporations which agree to have such arrangements usually make sure that the technology or know-how provided will not create competition for their own activities or hamper their interests.

Multinational corporations, when they agree to these types of contracts, usually require high fees for their services. They also impose certain restrictions in the contract. Thus, the local enterprise may be required to use the corporation's intermediate and capital goods, or it may be forbidden from exporting to certain markets. Therefore, the gains of relinquishing control of the multinational companies through these forms of transferring know-how without direct ownership are limited by the restrictions and dependency injected into these contracts.

TOWARD A STRATEGY OF DEVELOPMENT
INDEPENDENT OF MULTINATIONAL CORPORATIONS

Multinational corporations represent a relatively new form of organization taken by international capital. From this view, the question could be raised, to what extent could international capital enhance the process of development in developing nations? The answer to that question lies in the historical role international capital played in developing nations. Such a role was not at all positive or developmental. In fact, an examination of the experiences of third world nations with international capital leads to the conclusion that the state of underdevelopment in these nations is a product of subordination to international capital. This means that breaking the circle of underdevelopment requires breaking ties with the agent basically responsible for that state. It means that development strategy would have to achieve independence from international capital in any form of organization it takes. A perpetuation of links with international capital may preserve some forces of underdevelopment and may retard the rate of development.

An independent strategy for development would have to do away with forms of foreign investment. Such foreign investment distorts the process of development by transferring its returns externally, by directing national resources to serve externally existing demand (export industries), by stimulating and reinforcing demand patterns simulating foreign patterns, and by transferring externally the funds needed for capital formation at home. Doing away with direct foreign investment of international capital enables developing nations to have full control over the factors affecting development in the long run. These nations should realize that long range development is self-reliant, self-initiated, self-directed, and self-sustained.

The stragoy for independent and long-range development should be adaptive to local needs and local resources and potentials. More specifically, such strategy should be based on the following elements:

1. A leading public sector. To accelerate mobilization of resources and to control and direct their utilization effectively, a public sector should take the leading role in development projects. The public sector should be the main instrument of a central national plan of development.

2. Fulfilling popular local needs. Identifying and measuring important local needs should be the basis upon which development projects would be established.

3. Relying mainly on local resources. A survey of national material and human resources should be the base upon which development projects are set.

4. Using a technological milieu adaptive to local conditions and to development needs. The capital-manpower mix should be suitable to local conditions. The level and type of technology utilized should provide the opportunity for local control over such technology and for further enhancement and development of it.

5. Developing economic integration with other developing nations of similar developmental strategy. Some form of cooperation among nations of similar development strategies and of common interest could enhance development. This may include integration of common developmental projects and arrangements for market integration.

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STRATEGIE DES FIRMES DE LA CONSTRUCTION ELECTRIQUE ET ELECTRONIQUE ET DE L'INDUSTRIE GAZO-PETROCHIMIQUE DANS LE BASSIN MEDITERRANEEN

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P L A N   D E T A I L L E

SECTION 1 : Déploiement dans le secteur de la construction électrique et électronique : permanence et adaptation des stratégies des grandes firmes.