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The United Nations on transnational corporations: a summary and a critique*

F. I. NIXSON AND M. YAMIN

Introduction

IN 1973 the United Nations published an influential study¹ of the emergence of Transnational Corporations (TNCs) and their impact on the world economy in general and less developed countries (LDCs) in particular. The Report was based on a painstaking collection of statistical data and other information on TNCs broadly covering the 1950s and 1960s. The Report's significance, apart from being one of the very few documents containing a large amount of information on the subject, lay in the fact that for the first time an official and authoritative body explicitly recognised that the operations of TNCs can be a source of conflict² and in particular that the pursuit of corporate objectives may well be incompatible with the goals of national development in the LDCs. In fact, both the Report and much of the debate that it generated exhibited a sense of urgency reflecting the discovery of existing or impending conflict. Thus, the Group of Eminent Persons, set up to consider certain problems in greater depth and provide recommendations for national and international action, noted³:

From all these expressions of concern, one conclusion emerges: *fundamental new problems* have arisen as a direct result of the growing

*We would like to thank Philip Leeson for his comments on an earlier draft.

1. United Nations, *Multinational Corporations in World Development* (New York, 1973). A multinational or transnational corporation is broadly defined as a large firm which owns and controls productive assets (factories, mines, etc.) in two or more countries. The term 'transnational' is preferred as it emphasizes the transnationality of operations (across frontiers) without implying that ownership or senior management are in any sense multinational.

2. For a discussion of this issue see Chapter III of the 1973 Report. The sources of conflict are numerous, involving a combination of economic and political questions, such as transfer pricing and taxation, restrictive practices, especially in relation to the transfer of technology, and particularly in the context of the developed capitalist economies, the ineffectiveness of national trade unions. Other issues include political power and influence of TNCs and their overt or covert interference in the political life of LDCs.

3. See United Nations, *The Impact of Multinational Corporations on World Development and International Relations* (New York, 1974). Among the recommendations of the Group was the setting up of the Commission on Transnational Corporations to act "as the focal point within the United Nations system for the comprehensive consideration of issues relating to multinational corporations," *ibid.* p. 57. The creation of a Centre on Transnational Corporations was also recommended, the main tasks of which would be the collection and analysis of information and other research on TNCs to assist the Commission in its work and to strengthen the negotiating capacity of host countries, especially the LDCs, in their dealings with TNCs. The Commission and the Centre were created as a result of Resolution 1913 (LVII) passed in 1974 and became operational in March and November 1975 respectively.

internationalization of production as carried out by multinational corporations. We believe that these problems must be tackled without delay so that tensions are eased and the benefits which can be derived from multinational corporations are fully realized.¹

The Report acted as a watershed in helping to create a new perspective for the study of TNCs. Generally speaking, whereas before direct investment was seen as a package containing precisely all those inputs which the LDCs lacked (capital, technology, know-how and management) and was thus strongly presumed to be desirable, after the Report, problems of incompatibility of TNCs and certain patterns of development as well as bargaining and conflict over the distribution of costs and benefits between TNCs and LDCs became difficult to avoid.

The United Nations has now published a follow-up study that brings together an even more impressive collection of data on TNC operations during the 1970s. This report is in response to a "number of significant developments affecting the role of transnational corporations in the world economy"² which necessitates a re-assessment of the issues arising from their operations in the world economy. The Report believes that the most important of these developments relates to the quest of the LDCs for the establishment of a New International Economic Order (NIEO).³ The central theme of the Report is thus whether, how and in what directions, the activities of TNCs can be moulded or channelled in the future to bring about more positive effects as far as the LDCs are concerned. That is, the Report presents a re-evaluation of the role of TNCs in the NIEO, the essence of which is the redressing of the imbalances of the existing order and the establishment of a more just and equitable system. The main body of the Report focuses on the development of the policies and strategies of TNCs and the evolving relationship between them and the LDCs, while the final chapter attempts to identify new directions for national and international policies which might result in TNCs playing a more effective role in the NIEO.

The objective of this article is two-fold. In the first part, we present a summary of the Report's main findings as regards the trends and patterns of TNC activities in the 1970s. We argue that these features are best understood as a deeper internationalization of the world economy which has affected both developed and less developed countries. In the second part, we look at what we consider to be the more important aspects of the evolving relationship between TNCs and LDCs highlighted by the Report. In particular, we wish to examine critically the extent to which the relationship that is now emerging between TNCs and LDCs is favourable to the latter. We argue that the Report tends to

1. *Ibid.* p. 26. Emphasis added. 2. United Nations, *Transnational Corporations in World Development: A Re-examination* (New York, 1978), p. 1.

3. For a discussion of the NIEO see: C. H. Kirkpatrick and F. I. Nixon, 'The New International Economic Order: Trade Policy for Primary Products', *British Journal of International Studies*, iii (1977) and 'UNCTAD IV and the New International Economic Order', *The Three Banks Review*, No. 112 (December, 1976).

exaggerate the progress that the LDCs have been making and that this exaggeration partly stems from a misunderstanding of the nature of the relationship itself.

I *Patterns and trends in TNC activities.* Chapter 3 of the Report entitled 'Patterns and Trends in Transnational Corporation Activities', along with the statistical tables contained in Annex III, constitute the core of the Report. Eighty statistical tables in both the text and annex present a wide variety of information on nearly every aspect of TNC activity. In this article, we can only utilize a relatively small portion of this information, but we believe that the information that we have selected illustrates some of the more important and interesting aspects of TNC operations.

I(i) *Deepening internationalization of the world economy.* The Report shows that between 1967 and 1976 the annual average rate of growth of the stock of direct overseas investment roughly equalled the rate of growth of GNP of the Development Assistance Committee (DAC) countries of the Organisation of Economic Co-operation and Development (OECD). As a result, during this period the stock of direct investment has remained at about 7 per cent of the total output of OECD countries. In current US dollars, the worldwide direct investment stock increased from \$105 billion in 1967 to \$158 billion in 1971 and further to \$259 billion in 1975 (Table III-32). Thus the overall growth of TNCs during this period, as measured by the growth of the stock of direct investment, has been steady but not spectacular. However, direct investment on its own is becoming an increasingly inadequate indicator of the extent of TNC activity and their influence in the world economy.

Non-equity operations which can take a variety of forms such as licensing, management or technical agreements, have been on the increase,¹ and the Report highlights the growth of non-equity arrangements as an important aspect of the development of the TNC in recent years. Output generated under non-equity arrangements can often be considered as being under the control of the TNC in much the same way as that generated by direct investment. Thus an estimate of the growth of TNCs based only on direct investment data may be a significant underestimate of the degree of control and influence exercised by TNCs in the world economy.

But whatever the exact rate of growth of TNC-controlled output and activity may be, it is clear that TNCs are becoming increasingly international in character in the sense that they are exhibiting greater dependence on the 'foreign' content of their operations. For example, between 1971 and 1976, the sales of overseas subsidiaries of a sample of 422 TNCs grew 25 per cent faster than the firms' total sales (Annex IV). A similar relationship probably exists between profits generated by overseas activity and that generated by home activity.

1. *Ibid.* Chapter 3, Section D, pp. 68-69.

The most important feature of the situation highlighted by the Report seems to us to be a many-sided process that is gradually resulting in a deepening internationalization of the world economy, a process that will not necessarily be reflected in either a more rapid rate of growth of direct investment or in other indicators of TNC activity. Three aspects of this process seem particularly noteworthy: (a) the larger number of participants, (b) the sectoral widening of TNC activities and (c) increasing intra-firm integration.

(a) *The larger number of participants*: In the 1960s, the USA and the UK enjoyed a dominating position as far as direct investment and international production were concerned. Large firms in most other countries preferred not to commit resources to direct investment overseas and instead chose exporting as the major avenue for overseas growth (although there were many notable exceptions to this generalization). That situation has now changed and the largest firms in almost all the industrialized countries are becoming increasingly involved in international production.¹ This is to some extent reflected in the changing ownership composition of the stock of direct foreign investment for the period 1967–1976 as illustrated by Table 1.

TABLE 1
Percentage share of developed market economies in stock of foreign direct investment, 1967–1976

<i>Country</i>	<i>1967</i>	<i>1976</i>
USA	53.8	47.6
UK	16.6	11.2
France	5.7	4.1
Switzerland	4.8	6.5
Canada	3.5	3.9
Germany, Federal Republic of	2.8	6.9
Holland	2.1	3.4
Italy	2.0	1.0
Belgium–Luxembourg	1.9	1.2
Sweden	1.6	1.7
Japan	1.4	6.7
All other developed market economies (estimate)	3.8	5.8

Source: Taken from Table III–32, p. 236.

As can be seen from the table, the share of the USA, UK and France has declined considerably, while the share of the Federal Republic of Germany and Japan, in particular, has risen significantly. It is also of interest to note that since 1973, some of the oil-producing countries and a small number of the larger, more developed of the LDCs have begun to engage in direct investment overseas.² The socialist

1. *Ibid.* Chapter 3, p. 37.

2. With respect to the latter phenomenon, firms from Brazil, India, Hong Kong, Mexico and the Philippines have begun to invest abroad, although the Report points out (p. 51) that it is not clear what share of the investments originating in these countries is controlled by foreign affiliates of developed market economy TNCs located in these countries.

countries are also entering the field. The Report quotes one source which estimated that by 1976, the USSR and the socialist countries of Eastern Europe had over 700 trading and manufacturing concerns in the developed market economies and the LDCs.¹

For most of the post-war period, there was a basically asymmetrical element in the activities of TNCs. That is, there was a great deal of direct investment by US TNCs in most other countries and relatively little direct foreign investment in the USA itself. Mutual interpenetration of markets was, of course, occurring, a tendency first noted by the American economist, Stephen Hymer, in 1960,² but at that time it was confined mainly to the petroleum industry. This situation has changed in the 1970s, and in nearly every international industrial sector we observe greater symmetry with the TNCs of the developed economies penetrating each other's home markets, including that of the USA. In fact, the Report shows that direct foreign investment in the USA grew by more than 200 per cent between 1967 and 1975 and stood at \$30.2 billion in the latter year.³

Following on from the above, the Report comments that "transnational corporations seek out and flourish most in foreign markets that most closely resemble the home markets for which they first developed their products and processes" (p. 40), and the authors of the Report add perceptively that this preference pattern of TNCs has important implications for the LDCs, insofar as TNCs will attempt to reproduce in LDCs the market conditions that exist in the developed market economies. However, the full implications of this observation are not explored in the Report. To *look for* similar conditions is not the same thing as *the creation* of similar conditions. Increasing emphasis is now being placed on the process of 'taste transfer' by the TNCs, *via* product differentiation, heavy advertising and the use of brand names in the attempt to mould and create consumer tastes and preferences within LDCs. The impact of this particular form of technology transfer on the development process is profound, and the Report's failure to analyse this process is one aspect of its more general failure (noted below) to cover the activities of TNCs within the manufacturing sector.⁴

Another sense in which the number of participants has increased is the internationalization of relatively small firms in the developed market economies. A recent survey in the USA for example, showed that out of a total of 986 firms which owned at least one foreign manufacturing subsidiary or were involved in other forms of international activity

1. *Ibid.* p. 53. 2. S. Hymer, *The International Operations of National Firms: A Theory of Direct Investment*, unpublished Ph.D. Thesis (M.I.T., 1960). 3. *Ibid.* Table III-36, p. 240.

4. Great emphasis is placed on the taste transfer process by R. J. Barnet and R. E. Müller, *Global Reach: The Power of the Multinational Corporations*, (New York, 1974); for a case study see: S. Langdon, 'Multinational Corporations, Taste Transfer and Underdevelopment: A Case Study from Kenya', *Review of African Political Economy* (No. 2, January-April, 1975). See also D. Colman and F. Nixon, *The Economics of Change in Less Developed Countries* (London, 1978), Chapter 9.

such as joint ventures, minority holdings and licensing, 289 had world sales of between \$20 to \$100 million,¹ Other data in the Report also show a large number of firms with only one foreign investment. Thus in 1973, there was a total of 4225 firms with one foreign investment and another 1500 firms with two foreign investments.² Although it is not possible to assess exactly how the situation has changed in this respect compared to the 1960s, the Report points out that "the signs are that small firms are becoming increasingly active" in international production.³

One reason for this is probably the greater ease of international communication – faster air travel, better and cheaper telecommunications between countries and greater access to computer and data processing equipment – that helps firms to control and co-ordinate complex operations across national boundaries. All these factors help to lessen the disadvantages faced by smaller firms in moving outside the confines of their home countries.

But perhaps an even more significant reason is the internationalization of a whole range of services providing the type of infrastructure specifically required by international business.

(b) *The sectoral widening of TNC activities:* During the 1960s it was the rapid international growth of manufacturing firms that caught the attention of most economists. In the 1970s on the other hand, it is firms in the banking, insurance, accounting, advertising and consultancy sectors that are experiencing the most rapid international growth. This is shown in Table 2 which compares direct investment in manufacturing

TABLE 2

Selected developed countries: stock of direct investment in manufacturing and services: 1971 and latest available year: \$ million

	1971	1973	% growth
<i>U.S.A.</i>			
manufacturing (mfc)	44,370	61,062	37.6
services	25,945	39,411	51.8
<i>U.K.</i>			
mfc	10,043	14,131	40.7
services	5,633	8,399	49.1
<i>Germany, Federal Rep.</i>			
mfc	5,796	14,032	142.0
services	1,131	4,464	294.6
<i>Japan</i>			
mfc	1,092	3,723	240.9
services	1,978	4,119	108.2

Source: Table III-38, p. 242.

1. Data taken from Table III-18, p. 222. The relative smallness of such figures is clearly illustrated when they are compared with the annual sales of the largest TNCs. In 1976 for example, the total sales of the three largest TNCs were: Exxon – \$48.6 billion, General Motors – \$47.2 billion and Royal Dutch Shell Group – \$36.1 billion (Table IV-1, p. 288).

2. *Ibid.* Table III-8, p. 211.

3. *Ibid.* Chapter 3, p. 51.

with that in services, during the 1970s, for the four countries with the largest stock of direct investment in 1976.

The table shows that with the exception of Japan, the services sector had a more rapid rate of growth than manufacturing. The case of Japan is perhaps best explained by the fact that Japanese firms are relative newcomers to international production and that such manufacturing firms may need to expand their investment rapidly in order to catch up with the already existing and accumulating investments of rivals in that sector. Even so, the rate of growth of Japanese direct investment in services has been extremely rapid.

Furthermore, the fact that Germany, which like Japan, is a relatively new entrant, has nevertheless experienced a more rapid rate of growth of its stock of direct investment in services, is perhaps further testimony to an inherent and strong tendency towards internationalization in the service sector.

This tendency is most prominent in banking. The largest banks in most developed market economies were establishing new affiliates in overseas markets at a rapid rate. Table 3 shows the expansion of the affiliate network of the 50 largest banks between 1971 and 1976.

As can be seen from the table, the number of overseas affiliates of these 50 banks grew by more than 60 per cent between 1971 and 1976. As the Report points out, this general internationalization is also reflected in a greater proportion of assets held abroad as well as a greater percentage of overseas profits in total earnings.¹ In the case of the 13 largest US banks, foreign earnings grew on average by more than 47 per cent annually between 1970 and 1975.²

TABLE 3

World's largest 50 banks by country of origin and the number of overseas affiliates: 1971 and 1976

Country	Number of banks		Foreign Networks (no. of affiliates)	
	1971	1976	1971	1976
USA	13	10	826	1069
Japan	12	12	198	400
Germany	5	8	178	274
France	3	4	77	205
UK	4	4	168	366
Canada	4	4	157	232
Holland	—	3	—	132
Italy	5	2	130	128
Switzerland	3	2	74	78
Brazil	1	1	15	42
Total	50	50	1819	2929

Source: Table III-12, p. 215.

1. *Ibid.* Chapter 3, p. 47.

2. Calculated from Table III-14, p. 218.

The insurance industry has also become increasingly internationalized during the 1970s. Insurance companies in the USA, UK, France and Switzerland are in the forefront of this internationalization of the industry and accounted for approximately 70 per cent of foreign insurance activities in 1975.¹ The advertising industry too has been increasingly pulled abroad. The industry remains dominated by US advertising agencies which in 1976 accounted for 21 out of the 25 largest advertising agencies in the world, and which, in 1976, derived 42 per cent of their billings from foreign markets.² The comparable percentage in the 1950s would have been less than 5 per cent.

For other services, there are little specific data indicating the extent of internationalization, although it is clearly implied that most branches have shared in this process. In particular, the Report notes that "management consultancies, engineering consultancies, economic consultancies and many others have also been flocking abroad".³

(c) *Increasing intra-firm integration*: Intra-firm trade, both between affiliates and parents and among affiliates themselves, has continued to increase in the 1970s, although the increase has not been spectacular. In particular, the intra-firm trade of US TNCs has experienced little overall growth, although of course, they had already achieved a considerable degree of intra-firm trade during the 1960s, and by the beginning of the 1970s, about 50 per cent of US exports and 46 per cent of US imports were within the transnational system.⁴

The major growth of intra-firm trade appears to have taken place among European TNCs and their affiliates, although the Report does not present data directly bearing on this. Nevertheless, it does point out that European TNCs have begun to emulate the behaviour of US TNCs in this respect.⁵ We also know that European TNCs, especially the largest among them, have been adopting the type of international organization that facilitates the co-ordination and control of complex intra-firm transactions. Like their US counterparts before them, European TNCs are bringing their overseas subsidiaries into a more closely integrated network and consequently reducing the autonomy of subsidiaries and centralizing all important decisions at headquarters. By the mid-1970s, over half of the largest European TNCs had completed the transition to such globally-oriented organizations.⁶

The tendency towards intra-firm integration and centralization of decision-making has affected not only manufacturing TNCs but also those in the service sectors. In the words of the Report:

1. *Ibid.* p. 48 (based on Table III-56, p. 266).

2. *Ibid.* p. 48.

3. *Ibid.* p. 48.

4. *Ibid.* p. 43. For the United Kingdom, 30 per cent of exports in 1973 were intra-firm, a rise of 4 per cent compared to 1970 (p. 43). For a discussion of the issues relating to intra-firm trade, see: S. Lall, "Transfer Pricing by Multinational Manufacturing Firms", *Oxford Bulletin of Economics and Statistics* (August, 1973).

5. *Ibid.* p. 42.

6. R. Vernon, *Storm over the Multinationals: the real issues* (London, 1977), p. 31.

These centralizing pressures, acting at least on a regional scale within the manufacturing transnational corporations, are felt in the banks, advertising agencies, consultancies and other industries that provide services. Service companies are consequently adopting structures of organization that mirror on a world-wide or regional basis the centralization of the major clients. They in turn find it relatively more difficult to allow national units commercial independence.¹

I(ii) *Transnational corporations in LDCs*. We noted in the Introduction that much of the Report is concerned with the relationship between TNCs and LDCs. There are several references to the NIEO and it is argued that it is within this more just international order, in which the benefits of international interdependence will be more equally distributed between developed and less developed countries, that the changing relationship between TNCs and LDCs is taking shape.

The Report, however, also places emphasis on the fact that the importance of LDCs to TNCs appears to have declined. It argues that "Transnational corporations, led by those of United States parentage, have long tended to come from developed countries and to concentrate their foreign expansion within other developed countries".² According to the data presented in the Report, the share of the LDCs in the total stock of direct investment declined from about 31 per cent in 1967 to 26 per cent in 1975.³ However from a more detailed analysis of the data, it is possible to argue that much, if not all of this decline is due to the special circumstances of the 1970s, that it has only affected particular types of investment and that it does not reflect an underlying reduction in the attractiveness of LDCs to foreign investors.

This point can best be illustrated by looking more closely at the pattern of US direct foreign investment. Between 1973 and 1976, the stock of US direct investment in the extractive sector (mining, smelting and petroleum) of the LDCs fell from \$8,339 million to \$5,191 million, a fall of 38 per cent. Over the same period, direct investment in the manufacturing and service sectors rose by 45 per cent and 85 per cent respectively.⁴ A directly comparable calculation cannot be made for the UK but it is quite clear that the stock of UK direct investment in the extractive sector of LDCs also fell, while the stock of UK direct investment in the manufacturing sector rose significantly.

It must be presumed that these changes were due mainly to the nationalization of foreign-owned assets and the renegotiation of existing contracts by a number of LDC producers (especially in the Middle East) of petroleum (and, to a lesser extent, other minerals) during that

1. *Ibid.* pp. 44-45.

2. *Ibid.* pp. 39-40.

3. *Ibid.* Table III-33, p. 237.

4. Calculated from Table III-38, pp. 242-43. In the case of the Federal Republic of Germany over the period 1971-76, the stock of direct investment in manufacturing rose by 126 per cent and the stock of direct investment in the services sector rose by 422 per cent. Over the same period, there was a six-fold increase in West German direct investment in the extractive sector, although it started from the relatively low base of \$92 million.

period. This interpretation is supported by the shift in the distribution of the direct investment stock between the various members of OPEC. Indonesia and Nigeria held over 9 per cent of the direct investment stock of LDCs in 1975, compared to less than 4 per cent in 1967, whereas the share of all other OPEC countries fell from approximately 24 per cent in 1967 to 13.5 per cent in 1975.¹ It would therefore seem reasonable to conclude that the decline in the share of the LDCs in the stock of direct foreign investment was mainly owing to developments in the extractive sector, developments which, it could be safely predicted, are not likely to be repeated in other sectors of LDC economies in the near future.²

Even in the extractive sector, the decline in the importance of LDCs to TNCs highlighted by the data can be somewhat misleading. Mainly as a result of nationalization, a large part of the assets previously counted as foreign investment 'disappeared' overnight from the statistics. This of course does not mean that TNCs ceased to operate in those countries or draw substantial revenue or profit from them. As we shall see in the next section, even given the change of ownership in favour of the host country, it is possible for the TNCs to retain effective control over the assets concerned. Thus in spite of the change in the legal status of the TNC in the country concerned, its operations there may remain an integral part of its global operations and an important source of profit and strength. To some extent, therefore, the apparent decline in the relative importance of LDCs in the overall operations of TNCs may be a statistical illusion.

As we have already noted above, US direct investment in other sectors grew very rapidly in the early 1970s. In the service sector direct investment by the USA and the Federal Republic of Germany grew more rapidly in the less developed than in the developed economies. Banking direct investment in particular grew significantly more rapidly in the LDCs than elsewhere.

In fact outside of the extractive sector, the competition for entry into LDC markets has probably intensified in recent years. Smaller TNCs and new entrants generally prefer to establish their first subsidiary in LDC markets (and smaller markets in general), since they can establish an effective footing by committing relatively small amounts of resources, whereas to compete effectively in a market like that of the USA or the larger European countries requires much larger investment outlays.³ In this sense, investment in LDCs is less risky. A related point is that in the LDCs there may be no significant local competitors whereas in the

1. Table III-47, p. 254.

2. More direct evidence on the relative importance of LDCs to TNCs cannot be given as the Report does not present data that would permit the breakdown of total TNC investment in manufacturing in developed and less developed countries respectively.

3. See: R. Rowthorn, 'Imperialism in the 1970's - Unity or Rivalry?', *New Left Review*, No. 69 (1971); Reprinted in H. Radice (ed.), *International Firms and Modern Imperialism* (London, 1975), pp. 171-2.

developed economies, there are more often firmly established local businesses in the industries concerned.

But even granted the greater degree of competition to enter LDC markets, it must still be remembered that TNC investments are concentrated in a few industries in a relatively few LDCs. The OPEC countries and so-called tax havens¹ account for over one-third of the total stock of direct investment in LDCs and ten other countries² account for a further 40·6 per cent of that stock (the figure is for 1975). This pattern of concentration illustrates the point made above that TNCs prefer the larger (and more profitable) internal markets of the semi-industrialized LDCs if the bulk of their output is to be sold on the local market (import-substituting industrialization). Countries such as Brazil, Argentina, Mexico, India and the Philippines have been of particular importance in this respect. But the distribution of foreign direct investment also demonstrates the continued importance of the exploitation of natural resources and the increasing importance of the so-called export platform countries (for example, Hong Kong, Taiwan) which are used as sourcing points for the TNCs global system and are selected on the basis of their cheap labour resources and government legislation concerning investment incentives, labour policies and industrial relations and so on.³ The factors which motivate foreign direct investment in each of these three cases obviously vary, but together they constitute the prime determinants of global investment patterns.

II *The 'changing' relationship between transnational corporations and the LDCs*

We have already made the point that one of the main objectives of the Report is the re-evaluation of the role that TNCs could and should play in the NIEO. From our discussion of the previous section, it could be concluded that, as far as the LDCs are concerned, the greater number of companies entering international production, especially those from outside the USA and the UK and the growing importance of relatively smaller TNCs are factors which have widened the range of options open to LDCs. Furthermore, the greater competitiveness implied by this new situation must improve the potential of the LDCs to increase their share of the benefits of direct investment and other forms of TNC involvement in their economies.

At the same time, as shown in Chapter 2 of the Report, there is a greater awareness on the part of the LDCs themselves of the influence

1. Tax havens listed are Bahamas, Barbados, Bermuda, Cayman Islands, Netherlands Antilles and Panama (p. 254).

2. Brazil, Mexico, India, Malaysia, Argentina, Singapore, Peru, Hong Kong, the Philippines, Trinidad and Tobago (Table III-47, p. 254).

3. For a discussion of these developments see: G. K. Helleiner, 'Manufacturing Exports from Less Developed Countries and Multinational Firms', *Economic Journal*, 83 (1973); G. Adam, 'Multinational Corporations and Worldwide Sourcing' in Radice (ed.), *op. cit.* pp. 89-103.

of TNCs on the structure and characteristics of the national development process and of the conflict, both actual and potential, that can exist between the global strategies of the TNCs on the one hand and specific national development objectives on the other. This realization has led to most LDC governments attempting some form of control or regulation of TNCs. For example, certain areas of the economy may be closed to foreign investment; in other areas (especially natural resources), governments have nationalized foreign assets or insisted on the renegotiation of contracts; in yet other sectors, state enterprises enjoy a dominating position (for example, in the production of steel in India, Libya, Iran and Mexico). Some countries have attempted to restrict all TNC activities to minority holdings, often encouraging the development of joint ventures, whilst others have legislated for the gradual divestment by the TNCs of their assets in the countries concerned.¹ At the international level, LDC governments are increasingly involving themselves in the formulation of Codes of Conduct for TNCs, a point to which we return below.

The question that suggests itself is, given the increased options of LDCs and the new arrangements with TNCs, what *actual* changes in the relationship between them have taken place? In other words, has any real change occurred in who controls vital decisions or in who decides on the division of costs and benefits between the LDC host country and the TNC? An additional question is what policies might bring about, speedily and efficiently, such changes in favour of LDCs? These are the questions that the Report seeks to answer in Chapters 4 and 5.

The conclusions that the Report reaches, although carefully qualified in many respects, are nevertheless clearly optimistic. The Report believes that LDCs have in fact made significant progress in restructuring their relationships with the TNCs, and that the prospects for continued progress in this respect are good. It is argued that host countries, both large and small, have built up a knowledge and capacity to ensure a more equitable distribution of costs and benefits and that improved access to expertise and information, often made available by the international community, is an important part of this process. It is further argued that some success has been achieved in persuading TNCs to accept participation in decision-making by host-country partners, although it is recognised that even though ownership patterns may have changed, control may still reside in the TNC. At a more general level, and perhaps with less justification, the Report expresses the view that LDCs have begun to devise ways and means of minimizing the pervasive influence of TNCs in their domestic political process and decision making. We return to this latter point below.

It is our belief that the Report tends to exaggerate the progress made by LDCs and is thus over-optimistic in the assessment that it makes.

1. The Report recognizes that this is not a one-way process. Chile, Egypt, Mexico, Peru and Sri Lanka have all recently reduced regulations and controls over TNCs (*ibid.* p. 24).

The remainder of this article presents the main criticisms that can validly be made against the analysis of the Report on these matters and the conclusions that it draws.

The first criticism to be made is that, in terms of detailed analysis, the Report virtually ignores TNC activities within the manufacturing sector of LDCs.¹ Almost without exception, the cases of progress that are cited and discussed come from the extractive sector. Thus in Chapter 4, which discusses changing terms and conditions (section C) and changing contractual arrangements (section D), the focus is clearly on the extractive sector.²

The generalization of the experience of one sector in a small number of countries (see below) is surprising, given, as we have already noted, the declining relative importance of the extractive sector in overall TNC activities in LDCs (a decline, partly due of course, to the actions of LDC governments) and the tendency of direct foreign investment flows to go increasingly into manufacturing and service activities. In any case, the progress made is only of relevance to those countries fortunate enough to possess similar resources and the Report does not elaborate on how the experience of LDCs in negotiating with TNCs in the extractive sector might be of use when similar efforts are attempted in the manufacturing sector. In fact, the Report is almost totally silent on the 'demonstration effect' of developments within the extractive sector, beyond admitting that the problems are more complex in other sectors.

Following from the above, a second criticism that can be made is that even as far as the extractive sector is concerned, the Report generalizes all too easily from the experience of a relatively small number of countries, specifically, the oil producers of the Middle East, and Jamaica (negotiations with the TNCs over the exploitation of the country's bauxite). From section C of Chapter 4, it appears that the only effective progress has been made by the oil producers, particularly those of the Middle East. It is only in these cases that there is some measure of correspondence between formal changes in contractual and legal arrangements and a transfer of control and increased benefits to the LDCs.

In other cases, as the Report itself finds it necessary to admit, there

1. It is interesting to note that because of this neglect of the TNC's role in the manufacturing sector in LDCs, the Report does not discuss a key issue analyzed extensively over the past few years – the role of TNCs in the transfer of technology to LDCs and the implications of this transfer for economic development. For a discussion of these issues, see: G. K. Helleiner, 'The Role of Multinational Corporations in the Less Developed Countries' Trade in Technology', *World Development*, iii (1975); Colman and Nixon, *op. cit.* Chapter 10. It is also relevant to note the work of the United Nations Conference on Trade and Development on the formulation of a code of conduct for the transfer of technology for TNCs.

2. It is perhaps not surprising that most progress has been made in the extractive sector. Natural resources cannot be moved and the technology required for their exploitation is more widely known or more readily available than many manufacturing sector technologies. The increasing importance of national oil companies in the oil producing countries is evidence of this trend.

is not necessarily a close correspondence between real and contractual relationships. Thus the Report is sceptical about the value of joint ventures to the LDCs, even where the LDCs have a majority stake in the venture. As we have already noted, ownership does not necessarily imply control and an especially weak point as far as the LDCs are concerned is the lack of technical expertise on the part of LDC government appointees to the board of directors. The Report concludes that:

It is not surprising . . . that most transnational corporations should have overcome their earlier reservations about joint ventures with host governments in the extractive sector. They have realized that a joint venture may effectively diffuse nationalist objections to foreign control of the host country's natural resources without substantially diminishing the TNC's actual control or its financial returns. Furthermore, from the operational point of view, the Government's equity interest, coupled with the presence of important Government officials on the board of the joint venture, assures easy access to local capital and other facilities . . . and generally improves communications between the Government and the TNC. (p. 107)

Although the Report clearly recognizes that changes in contractual arrangements do not always change the real balance of power between LDCs and TNCs, it does not in any real sense incorporate this recognition into its analysis or conclusions. It can also be argued that its criticisms of joint venture arrangements in the extractive sector apply *a fortiori* to similar arrangements within the manufacturing sector, where the degree of technical complexity is likely to be greater and the extent of genuine local control correspondingly smaller.

In spite of the proliferation of joint ventures and other forms of non-equity arrangements, many raw material producers have failed to alter the behaviour of TNCs in their countries. For example, one important area of disagreement between such LDCs and TNCs (and, incidentally, an important component of the proposed NIEO) is the question of the local processing of raw materials. LDCs are obviously strongly in favour of local processing as this generates additional employment and income in the host country. The TNCs on the other hand in general prefer to export the materials in their raw form, and it appears that so far the TNCs have been largely successful in resisting LDC demands in this area. In spite of LDC governments implementing a variety of measures, the Report concludes that "the major share in downstream stages of resource-based activities remains in the consuming countries", although some progress has been achieved in the petroleum and related industries.¹

The analytical weaknesses which we have argued the Report suffers from derive from a basic misunderstanding or misinterpretation of the relationship that exists between TNCs and LDC governments. This confusion causes the authors of the Report both to underestimate the

1. *Ibid.* p. 85.

complexities of the actual relationship and to exaggerate the progress that has so far been achieved or is likely to be made in the near future in changing that relationship. The Report appears to believe that progress mainly stems from identifying a problem and then finding rational solutions to that problem. Once such solutions are accepted by both sides and effectively implemented the problem will eventually disappear. According to this view, problems that still persist will only be solved when research is carried out along the right lines and the correct policies formulated.

This basic philosophy permeates all aspects of the Report but comes to the surface most clearly when the Report discusses the political dimensions of the TNC-LDC relationship (Chapter 4). The Report acknowledges that the mere presence of TNCs in LDCs can have a significant effect on the host country's political situation:

The establishment of business connections and alliances may lead to effective support for, or the strengthening of, various domestic interest groups and may thereby affect the host country's political life. Lobbying techniques have tended to become highly sophisticated. Thus far, there have been few systematic studies and little comprehensive evidence on these matters. *Partly as a result*, no effective policies have been devised, in most host countries, to deal with them.¹

The authors of the Report do not appear to consider the possibility that those who make decisions in the LDCs affecting TNCs are in fact a part of the overall political-economic system partly created by the TNCs themselves and benefitting from the operations of TNCs within their economies.² Given this situation, any intervention in the affairs of TNCs is not likely to be such as to destabilize the whole system. This in turn may provide some explanation as to why, in the majority of cases, changes in contractual relationships have not radically altered the real balance of power and significantly affected the overall division of benefits.

Concluding comments

We referred at the beginning of this article to the importance the Report places on the changed role of TNCs in the New International

1. *Ibid.* pp. 75-76 (emphasis added). Presumably those who would have to act on the research findings suggesting solutions to the lobbying problem are the very same people (especially in LDCs) who are being lobbied, and it is not being unduly cynical to presume that they benefit from lobbying in various ways and will thus have a vested interest in its continuation. The same comment must apply to many other aspects of the relationship between TNCs and LDCs (with respect to bribery and corruption, for example).

2. This point is of course widely recognized in the dependency literature, in both its 'structuralist' and Marxist guises. See for example: O. Sunkel, 'National Development Policy and External Dependence in Latin America', *Journal of Development Studies*, vi (1969); F. H. Cardoso, 'Dependent Capitalist Development in Latin America', *New Left Review*, No. 74 (1972); T. Dos Santos, 'The Crisis of Development Theory and the Problem of Dependence in Latin America' in H. Bernstein (ed.), *Underdevelopment and Development* (London, 1973); H. Alavi, 'The State in Post-Colonial Societies - Pakistan and Bangladesh', *New Left Review*, No. 74 (1972); C. Leys, *Underdevelopment in Kenya* (London, 1975).

Economic Order and we now return briefly to that issue. In many places throughout the Report, the NIEO is referred to as if in fact it is already a reality, rather than merely an ill-defined set of proposals on which no major agreement between developed and less developed countries has yet been reached. The assumption that the NIEO is a reality inevitably gives an optimistic gloss to the conclusions reached concerning the changed relationships between TNCs and LDCs.

Related to this issue is the question of the formulation and implementation of internationally agreed Codes of Conduct, the purpose of which would be to persuade TNCs to modify their behaviour (where necessary) in line with a set of guidelines or recommendations for "good corporate behaviour" in host countries. The Report recognizes the need for international action in this field,¹ but is strangely silent on the problems that would probably bedevil such Codes of Conduct in practice. For example, should such Codes be voluntary or should they contain an element of compulsion? TNCs in general argue that they are unnecessary insofar as most TNCs are already good citizens whose operations do not require monitoring. If Codes are to be mandatory, how are they to be enforced? Will TNCs be prepared to release the information necessary to determine whether breaches of the Codes are taking place? These issues are not discussed and although the Report is undoubtedly correct when it states that there is "no substitute for appropriate international action" (p. 157), a realistic assessment of the chances of an effective Codes of Conduct being agreed upon, within the context of a changed role for TNCs within the NIEO, would have greatly enhanced the value of the Report.

Lacking such a dose of realism, many of the Report's prognostications must be seen as nothing more than optimistic speculations about the future course of international affairs and as such must be drastically discounted. All in all, we feel justified in remarking that as compared to its predecessor, this Report displays a great deal of complacency. It gives no, or at best scant attention to a whole range of questions worthy of serious attention and seems to believe that the 'fundamental new problems' identified in earlier Reports have either been, or are in the process of being resolved, without producing any convincing analysis or evidence to support this view.

1. The plethora of proposals is also evidence of the importance attached by other international institutions to the question of a code of conduct. See, for example: OECD Guidelines, ILO's Tripartite Declaration of Principles Concerning TNCs and Social Policy Issues, UNCTAD's Code of Conduct on the Transfer of Technology, as well as the work of the U.N. Commission on TNCs.