ASEAN AND THE MULTINATIONAL CORPORATIONS

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Institute of Southeast Asian Studies

The Institute of Southeast Asian Studies was established as an autonomous corporation in May 1968. It is a regional research centre for scholars and other specialists concerned with modern Southeast Asia. The Institute's research interest is focused on the many-faceted problems of development and modernization, and political and social change in Southeast Asia.

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The opinions expressed in this publication are the responsibility of the authors and not of the Institute.

PREFACE

It has been felt for quite some time that contacts between multinational (or transnational) corporations and Southeast Asian governments and societies are likely to increase over a wide spectrum of fronts in the future, irrespective of the 'national' origins or images of the individual MNCs or TNCs concerned. At the same time it has also been observed that there are instances and areas where there have been misunderstandings and, in some cases, even serious tension between individual MNCs and local interests and aspirations. And, as contacts increase in the future, it is possible that such misunderstandings and tensions could similarly increase unless concrete preventive steps are taken. The need for better mutual understanding between Southeast Asian national aspirations and interests on the one hand, and those of MNCs on the other, therefore becomes all the more imperative.

One avenue for promoting better understanding between MNCs and Southeast Asia would be a series of meetings, involving representatives of multinational corporations and Southeast Asian industrialists and government officials, to discuss various aspects of the relations between MNCs and Southeast Asian interests, as well as the likely role of MNCs in the future development of the region. Such discussions would not only lead to the illumination of some of the ignorance surrounding MNC/Southeast Asian relations but also help to stimulate interacting between MNC and Southeast Asian viewpoints. Moreover, they might help to pinpoint problem areas for further discussion and research – all hopefully contributing and ultimately leading to more effective and productive working relations between MNCs and Southeast Asian aspirations and needs. It was with such consideration in mind that both the Institute of Southeast Asian Studies and the Indonesian Centre for Strategic and International Studies thought that the time was now ripe for a small, knowledgeable group of Southeast Asian industrialists and senior government officials to get together in a Roundtable Discussion with some principals of MNCs to explore ways and means of promoting a more viable *modus vivendi* and understanding between MNCs and Southeast Asian national and regional interests.

The Roundtable meeting was held in Singapore over two working days and stimulated considerable discussion. This discussion, together with the associated reports, forms the basis of the volume that follows. In the course of its preparation for publications, and also during the Roundtable Discussion itself, we received considerable assistance from several individuals and organizations, and we would like to record our appreciation of this support. In particular, we would like to thank the Asia Foundation for covering part of the Roundtable Discussion costs, and the participants, observers, and the editors for their valuable contributions and comments. Whilst wishing them, and the work that follows, all the best it is clearly understood that responsibility for facts and opinions expressed in the proceedings and the reports that follow rests exclusively with the individual authors concerned.

23 January 1978

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ACRONYMS

ABC	American Business Council (Singapore)
AFL/CIO	American Federation of Labor/Congress of Industrial Organization (U.S.A.)
ASEAN	Association of South-East Asian Nations
EBIC	European Banks' International Company
ECAFE	Economic Commission for Asia and the Far East
EDB	Economic Development Board (Singapore)
EEC	The European Economic Community
ESCAP	Economic and Social Commission for Asia and the Pacific
EURATOM	European Atomic Energy Community
GM	General Motors Corporation
GSP	Generalized Scheme of Preferences
IBM	International Business Machines Corporation
ICC	International Chamber of Commerce
ICFTU	International Confederation of Free Trade Unions
ICSID	International Centre for Settlement of Investment Disputes
ILO	International Labor Organization
ISEAS	Institute of Southeast Asian Studies (Singapore)
LAFTA	Latin American Free Trade Area
LDC	Less developed countries
LNG	Liquified natural gas
MAS	Monetary Authority of Singapore
MITI	Ministry of International Trade and Industry (Japan)
MNC	Multinational corporation
MOF	Ministry of Finance (Japan)
OECD	Organization for Economic Co-operation and Development
OECF	Overseas Economic Co-operation Fund (Japan)
ROI	Return on investment
TNC	Transnational corporation

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Part I

Background Discussion, Summaries of Proceedings, and Concluding Commentary

MNC/ASEAN RELATIONS: A BACKGROUND DISCUSSION

Corazon M. Siddayao

Despite the controversies surrounding the multinational corporation (MNC), there is no likelihood of a decrease in the involvement of such firms in the economic development of Southeast Asian countries in the foreseeable future. Rather, the interaction between MNCs on the one hand, and individual host governments and the people in the host countries in the region, on the other, is seen as increasing. This is inevitable so long as direct foreign investment is both required and desired by Southeast Asian countries to spur their economic development objectives.

With the more aggressive and more united front the member countries of the Association of Southeast Asian Nations (ASEAN) have taken in the last few years, another dimension has been added to the usual MNC/host country relation. MNCs within the ASEAN region may soon find themselves having to cope with new questions with the growing momentum of efforts to achieve regional economic co-operation. As policies get harmonized over a wide array of issues, MNCs may find a different institutional framework evolving not only with regard to ASEAN-designated projects but also with regard to their investment in specific host countries.

This introductory commentary is intended (1) to provide a background to the discussions by highlighting some of the important issues in the general debate on the net results to a developing host country of direct foreign investment by multinational corporations, and (2) to provide some perspective to the discussions on the relations of MNCs with ASEAN by touching on some important and related aspects of ASEAN which were assumed in the exchange of views.

General Issues on MNC/Host Country Relations

Definition of terms is in order at this point. Purists like to distinguish the use of the term "transnational corporation" (TNCs) from the term "multinational corporations" (MNCs), depending on the number of nations over which management is spread. In a broad frame of reference, the term "multinational corporation" may be used to cover all enterprises which control assets of any sort in two or more countries. A somewhat narrower frame of reference was adopted in the Roundtable discussions; the terms *TNCs* and *MNCs* were used interchangeably to refer to *large-scale enterprises* with operations outside their countries of origin. It must be assumed, of course, that the definition includes the presence of a considerable measure of control over the foreign operation. The investments of multinational corporations in foreign countries are part of a broader class of investments known as *direct investment* (as opposed to portfolio investments) and this type of investment involves the transfer of any new resource by a parent company to its subsidiaries in foreign countries. Such resources would include equipment, raw materials, finished products, and money for which payments are deferred, as well as reinvested earnings and loans from parent to subsidiary. The discussion of the issues that follows then will take these notions into consideration.

In Asia and elsewhere, nineteenth century foreign investment in the developing countries of today were principally in the mining, plantation-type agriculture and associated services. The resulting enclave and monopoly activities were, therefore, strongly associated with colonialism and came under attack in the 1920s, especially in the Americas. Although much of this resentment had disappeared after World War II with the emergence of independent nations, some developing countries remained basically hostile to foreign investment since that time, and some observers attribute the relatively low investment in Asia partly to this hostility.

The pattern of foreign investments has changed and is far more complex and differentiated today than it was in the period preceding and immediately following World War II. By the 1960s, some firms had begun directing their investment to foreign countries in search of cheap labour, while at the same time diversification of ownership forms and of the investment sources began to appear, especially in Southeast Asia. Also, developing countries are now more aware of their bargaining power in dealing with the foreign investor, and the foreign investor, conscious of the changing scene, has taken a different approach to its relationship with developing countries.

The question of whether foreign investment, specifically that of MNCs, actually alleviates or perpetuates underdevelopment has coloured the debate in the years following World War II. One view, highly favourable to private foreign direct investment, held that shortage of capital in the developing countries was the prime constraint on development. Foreign direct investment from the private sector was viewed as the greatest potential source of capital as well as entrepreneurship, technology, management and marketing facilities. Thus, developing countries were encouraged to provide a "hospitable climate" for foreign investment, and to provide incentives such as tax holidays and subsidies. The opposing view, expressed against a backdrop of what was being referred to as a neocolonial pattern of foreign direct investment which dominated the period prior to the early1950s, held that such investment was largely concentrated in the extractive industries of poor countries. It was argued that, in concentrating on the primary sector, such investment tended to reinforce a pattern of development which, over the long term, trapped the poor countries in a vicious cycle of poverty as their terms of trade inevitably deteriorated. At the same time, it was argued that the rich countries (the home countries of the multinationals) reaped the greater portion of the financial returns to their investments and enjoyed a continued flow of relatively cheap raw materials for their industries. Another strand of thinking stressed the contribution that foreign capital could make to scarce foreign exchange.

Whatever line the arguments may take, the evidence shows that direct investment has been an important source of capital for developing countries. One study shows that in the years 1968-72 over 20 percent of the total capital imports of developing countries were received through direct investments and that this was half as much as the capital transferred to them through official development assistance (Weigel, 1974). This amount of inflow cannot but have multiple repercussions, and the present controversy over the role of multinationals goes beyond the role of private foreign direct investment in the development process. In recent years, development has been seen as the interaction of social, cultural, and political change with economic factors, and the definition and objectives of development have shifted from that of simple accelerated aggregate economic growth to the achievement of social objectives, such as equality in the distribution of income and, above all, employment and generally meeting the needs of the masses of poor people. As this happened, the contribution of the multinational corporation, whose operations affect a wide range of politically sensitive areas, came to be judged not only by its impacts on economic growth but also by the effects of the MNC's operations on the other national objectives. More recently the ASEAN countries, in particular, have embarked on policies of trying to attract more labour-intensive, export-oriented investments that could be better integrated into the host economies and in which there could be a larger proportion of domestic ownership.

Among the most common charges raised by developing host countries against the multinational corporation are the following:

(1) Its impact on development is very uneven and it therefore creates or reinforces dualism and inequality of income.

(2) The operations of a multinational corporation may be destructive to the local economy. In the process of modernization, handicraft products are displaced by machine-made goods. While this may equally be caused by domestic enterprise, the displacement of indigenous entrepreneurs by foreigners is much more resented.

(3) It introduces inappropriate products, and therefore inappropriate technology and inappropriate consumption patterns. These are goods produced with the sophisticated technology of the rich, industrialized countries for their high-income markets.

(4) Part of the issue related to the transfer of technology is the reported distortion in the pricing of inputs and exports. The distortion is seen as taking the form of overpricing of intermediate products and capital goods, which are tied to the imports of technology, or the underpricing of exports to the suppliers of the technical know-how.

(5) Linked to the above is the effective rate of taxation of the MNC by

the host country, if the distortion affects the calculation of MNC profits.

(6) The MNC stifles local private enterprise, because its superior know-how and management prevent indigenous entrepreneurs from initiating new enterprises. At the same time, the MNC does not try to develop local managerial and top-level technical expertise, nor does it give the indigenous capitalist an opportunity to share control of the operation.

(7) Related to this is the accusation that the MNC imposes a package of technology that gives it a monopolistic position and economic dominance in an economy.

(8) The employment contribution by foreign affiliates to developing countries is also considered to be small in relation to the massive employment problem.

(9) Quite often also, the multinational corporation is perceived as capable of circumventing or subverting the policies, objectives and interests of the host countries.

(10) In addition the MNC is also charged with influencing government policy in directions unfavourable to the host country's development, by securing excessive protection, tax concessions, subsidies, etc. Thus there are substantial private profits to the MNC but very low or possibly negative returns to the society in which it operates.

Essentially the charges against MNCs revolve around three issues: (1) the economic and political power concentrated in the hands of these large organizations, (2) their actual or potential use of that power to their advantage, and (3) as a consequence of that power, their ability to shape demand patterns and values as well as to influence the lives of the people and the policies of the government.

On the other hand, multinational firms point to a range of frequently discriminatory regulations or measures enacted by host governments, with significant negative effects. They accuse host governments of arbitrary and unilateral actions that change the rules of the game in mid-stream. Multinational executives generally fear the power of governments and frequently mistrust the motives of government actions. There has also been some concern over the question of equity positions. MNCs also argue that the performance characteristics and patterns of which host countries accuse them are, in part, the result of host country policies themselves.

The evidence on both sides is mixed, but in summary, the present state of the interrelationships between multinational firms and the host countries is characterized by considerable mutual mistrust and largely non-existent or ineffective channels of communication. The question of mutually benefiting from the advantages of free enterprise and corporate initiative combined with some form of government regulation of the business activities of the multinational to safeguard public interest has been the subject of intense debate worldwide, and it remains a controversial issue. The global orientation of an