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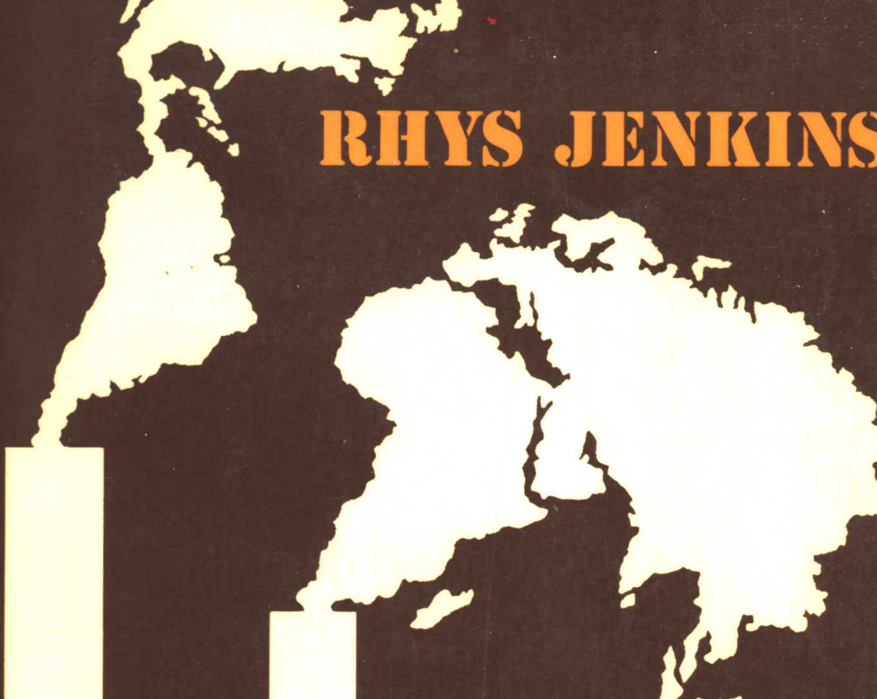

TRANSNATIONAL CORPORATIONS AND UNEVEN DEVELOPMENT

THE INTERNATIONALIZATION OF CAPITAL AND THE THIRD WORLD

Transnational Corporations and Uneven Development:

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Rhys Jenkins

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Development studies is a complex and diverse field of academic research and policy analysis. Concerned with the development process in all the comparatively poor nations of the world, it covers an enormous geographical area and a large part of the modern history of the world. Such a large subject area has generated a varied body of literature in a growing number of journals and other specialist publications, encompassing such diverse issues as the nature and feasibility of industrialization, the problem of small-scale agriculture and rural development in the Third World, the trade and other links between developed and developing countries and their effects on the development prospects of the poor, the nature and causes of poverty and inequality, and the record and future prospects of 'development planning' as a method of accelerating development. The nature of the subject matter has forced both scholars and practitioners to transcend the boundaries of their own disciplines whether these be social sciences, like economics, human geography or sociology, or applied sciences such as agronomy, plant biology or civil engineering. It is now a conventional wisdom of development studies that development problems are so multi-faceted and complex that *no* single discipline can hope to encompass them, let alone offer solutions.

This large and interdisciplinary area and the complex and rapidly changing literature pose particular problems for students, practitioners and specialists seeking a simple introduction to the field or some part of the field with which they are unfamiliar. The Development and Underdevelopment series attempts to rectify these problems by providing a number of brief, readable introductions to important issues in development studies written by an international range of specialists. All the texts are designed to be readily comprehensible to students meeting the issues for the first time, as well as to practitioners in developing countries, international agencies and voluntary bodies. We hope that, taken together, these books will bring to the reader a sense of the main preoccupations and problems in this rich and stimulating field of study and practice.

RAY BROMLEY
GAVIN KITCHING

Preface

This book is the result of a long period of research and teaching on the impact of transnational corporations on the Third World. Although my research has concentrated mainly on Latin America and on the manufacturing sector, teaching students forced me to broaden my horizons to take in other regions and sectors. As a result I hope that this book is not too biased in one direction.

Although the main impetus to writing this book was teaching about TNCs on a course on International Economic Relations at the School of Development Studies, I have tried to avoid excessive use of technical terms in an effort to make it accessible to non-economists and lay readers. Where technical terms have inevitably slipped in, I have tried to explain them in a short glossary. Particularly with students in mind, I have also included a guide to further reading at the end of each chapter.

The emphasis throughout the book is on the different theoretical perspectives which underlie contrasting assessments of the impact of TNCs on the Third World. Although I am aware of the dangers of such an approach, it is one that I have found useful in teaching students in this field. However I have not attempted to achieve a spurious objectivity and I make no secret of my own sympathies. Indeed part of the purpose of the book is to argue the case for an internationalization of capital approach to the TNCs, as opposed to the more common neoclassical or institutionalist approaches. I hope however that in doing so I have also managed to bring out the merits of other approaches.

In terms of the development of this book my foremost debt is to the students who at different times were the guinea pigs on whom the ideas presented here were first worked out and who I can only hope learnt as much as I did in the process. I am also heavily indebted to Chris Edwards, Gavin Kitching, Sol Picciotto and John Thoburn who read and commented extensively on an earlier draft of the text, although they should be absolved of any responsibility for the inadequacies of the finished product. Last but not least, my thanks to Ruth, Megan and Sam for putting up with me while the book was being written.

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Transnational corporations: significance and growth

INTRODUCTION

Few economic institutions give rise to such passionate feelings as the transnational corporation (TNC). This is particularly true in the context of its impact in the Third World. It has been portrayed both as an engine of growth capable of eliminating international economic inequality and as a major obstacle to development. It is seen both as a force capable of revolutionizing the productive forces in the economically backward areas of the world and as a major cause of underdevelopment through a massive drain of surplus to the advanced capitalist countries.

These debates have not been confined to academic students of development but have also been fought in national and international political fora, business and trade union circles, the media and even in the arts. The aim of this book is to provide the reader with an understanding of the different positions in this continuing debate and the underlying analytical frameworks of the participants. Its focus is the impact of TNCs in the Third World and as such its scope is relatively narrow. Nevertheless a number of issues will need to be considered in order to obtain an overall perspective on this question.

DEFINITIONS AND TERMINOLOGY

Before embarking on a discussion of the impact of TNCs it will be as well to clarify a few points concerning definitions and terminology. There is no universally accepted definition of a transnational corporation. Indeed after over a decade in operation the United Nations Centre on Transnational Corporations has not been able to arrive at a definition. The broadest definition put forward by the UN Economic and Social Council refers to 'all enterprises which control assets – factories, mines, sales offices and the like – in two or more countries' (UNCTC 1978, 158). Usually, however, the term is limited to firms that control *production* in at least one foreign country (Hood and Young 1979, 3). The term is sometimes qualified by specifying that firms should have a certain minimum level of overseas activities, either in terms of the number of countries in which they operate or the proportion of production, assets or employment overseas, and that they should be of a certain minimum size. Thus, for example, the Harvard Business School Multinational Enterprise Project defined a US firm as a multinational if it was listed in the Fortune 500 largest US corporations and had subsidiaries in six or more countries. Another issue which has been debated within the United Nations is whether the term should only be applied to privately owned firms or whether it should also extend to state corporations, some of which, such as Renault, are indistinguishable from privately owned TNCs.

In a book of this kind which seeks to examine recent debates and which draws on a variety of sources for its empirical material it would be undesirable and probably impossible to adopt a single, rigid definition of transnational corporations. In other words an author is obliged to take on board the definitions which are employed by other writers. Having said this, it seems desirable to exclude from the definition firms that supply foreign markets entirely through exports and to concentrate on those which engage in international production. It is also important to bear in mind that different writers may be working with different definitions and to seek to avoid unnecessary confusion. Often empirical evidence from both home and host countries is available only on direct foreign investment and not on the operations of TNCs. The extent to which this constitutes a major problem will depend on the proportion of foreign investment which is accounted for by non-TNCs. The degree to which a relatively small number of TNCs dominate overseas investment (see below) limits the distortion involved in using such data.

It should also be noted that the book is primarily concerned with the internationalization of industrial capital. As such it does not seek to examine the operations of transnational banks or services, such as advertising, accounting, etc., except in so far as these are related to the international expansion of industrial capital.

In writing this book I have tried consistently to use the term 'transnational corporation' as opposed to alternatives such as 'multinational corporation', 'multinational enterprise', 'international firm' and so on. This is the term used in United Nations publications and institutionalized with the creation of the UN Centre on Transnational Corporations in 1974. The UN adopted the term 'transnational' in preference to 'multinational' at the insistence of certain Latin American and Caribbean states who wished to distinguish between foreign-owned TNCs and joint-ventures of two or more participating countries established as part of regional integration schemes (UNCTC 1978, 159). This term emphasizes that such corporations are usually national firms (in the sense of having a clearly identifiable home base) which operate across national boundaries.

The second term that requires definition is 'Third World'. Fashions come and go in development studies to describe groups of countries. In this book the term Third World is the main one used as a shorthand for the countries of Latin America, Africa (excluding South Africa) and Asia (excluding Japan). To avoid undue repetition the term 'less developed country' (LDC) is also used from time to time.

A word of caution is in order here, as much to the author as to the reader. The use of the term Third World suggests an unified entity which has many common features. However the Third World is in fact extremely heterogeneous and in the process of becoming more so. The states which make up the Third World range from Brazil to Botswana, Saudi Arabia to Surinam, and Taiwan to Tanzania. In talking of the impact of TNCs in the Third World there is a real danger of losing sight of this heterogeneity and presenting it as though their impact is the same everywhere irrespective of local class structures, levels of development or state forms.

The danger is all the more real because most studies of TNCs in the Third World have tended to be concentrated on a few countries which have been the main hosts for foreign investment. These have tended to be either middle-income countries, or countries with substantial natural resources. The reader should therefore always try to bear in mind the heterogeneous nature of the Third World and ask him/herself, what kind of Third World country does this point apply to? What would be the situation in a different kind of country?

ORIGINS AND GROWTH OF THE TRANSNATIONAL CORPORATION

Capital has operated internationally from the earliest days of capitalism. Merchant capital, engaged in long-distance trade, pre-dated the emergence of the capitalist mode of production in Europe. Later trade played a major role in the emergence of industrial capitalism in eighteenth-century Britain. In the nineteenth century finance also became increasingly internationalized as Britain, and to a lesser degree France and

Germany, invested abroad in government and municipal bonds, and shares in railways, trams and public utilities. In contrast to the direct foreign investment associated with TNCs, this was primarily *portfolio* investment[1] and at the outbreak of World War I 90 per cent of all foreign investment was portfolio investment. The late nineteenth century however also saw the beginnings of the internationalization of productive capital and the origins of some of today's major TNCs. This was the outcome of a number of developments in the capitalist mode of production. From the middle of the nineteenth century certain developments in transport, storage and communications had paved the way towards the creation of a more integrated international economy. These included the development of the railways, iron steam shipping, refrigeration and temperature-controlling techniques, and the invention of the telegraph.

At the same time the concentration and centralization of capital was leading to an increasing size of firm in the advanced capitalist countries and with it important changes in the organization of capitalist enterprise. This has been described by Hymer (1979, ch. 2) for the United States. In the 1870s the typical enterprise in the United States was the single-function firm controlled by an entrepreneur or a small family group. By the early twentieth century this had been replaced by the large corporation carrying out numerous functions and operating several plants. The organization which developed to administer and control these corporations on a continent-wide basis in the US were also well suited to operate plants and subsidiaries in other parts of the world and so the TNC was born. In Europe the so-called Great Depression (1873–96) stimulated the growth of many consumer-good industries as food prices fell, and increasing tariff protection from the 1880s in the USA, Germany, France and elsewhere stimulated international production (Wilson 1974).

Many of the earliest TNCs were in the manufacturing sector. In the last quarter of the nineteenth century, firms such as Singer, ITT, General Electric and Westinghouse from the United States, Dunlop and Lever Brothers in the UK and Nestlé and Siemens in Europe established manufacturing plants overseas. Most of these early manufacturing investments were in Europe (including Russia) and North America.

The first TNCs to enter the Third World were concentrated largely in the primary sector. Although there were earlier foreign investments in raw material production in the Third World, the emergence of modern TNCs with substantial operations in these areas dates from the turn of the century. These included oil and mineral investments in Mexico, copper mining in Chile, Peru and the Belgian Congo, bauxite in British and Dutch Guyana and oil in the Dutch East Indies.

The expansion of these extractive TNCs was triggered by the rapid growth of demand for certain crucial raw materials which outstripped domestic production capacity in the advanced capitalist economies. New, lower cost sources of supply were eagerly sought by established producers and these were frequently located in the Third World. Thus major TNCs such as Exxon, Royal Dutch Shell, Anaconda, Kennecott and Alcoa were born.

At about the same time, a number of TNCs also began to emerge in agriculture. The United Fruit Company was formed in 1899 and established its 'Banana Empire' in Central America and the Caribbean before World War I. Major US food-processing companies invested in sugar plantations in Cuba and W. R. Grace and Co. began large-scale sugar production in Peru. British TNCs such as Unilever in vegetable oils and Cadbury in cocoa invested in Africa before World War I, while Dunlop owned rubber plantations in Malaya and Brooke Bond set up tea plantations in India and Ceylon. Both in agriculture and in minerals, production had often already been developed by local small-scale producers so that the growth of TNCs constituted a process of monopolization and vertical integration.

At the outbreak of World War I over 60 per cent of all direct foreign investment was located in developing countries (Dunning 1983, table 5.2). Fifty-five per cent of all direct foreign investment was in the primary sector and only 15 per cent in manufacturing (Dunning 1983, 89). Since manufacturing investment was concentrated mainly in the advanced countries (including Russia) and mineral investments mainly in the British Empire and the developing countries, it is clear that the bulk of DFI in the Third World must have been in primary production. This is borne out by data for the United States which indicate that mining accounted for 39 per cent of all DFI in less developed countries in 1914, agriculture for 18 per cent and oil for 13 per cent. Manufacturing on the other hand accounted for only 3 per cent of the total (Figure 1.1).

The inter-war period saw the beginning of operations by manufacturing TNCs in the Third World. The main area for such expansion was Latin America where by 1939 the world's leading TNCs (both US and European) had set up as many as 200 subsidiaries. US firms, such as Ford, General Motors, Goodyear, Firestone, National Cash Register, General Electric, ITT, Singer, Abbott and Parke Davis, and European firms such as Pirelli, Philips, Siemens, Lever, Roche, Nestlé and Olivetti set up subsidiaries in Latin America in this period. In the rest of

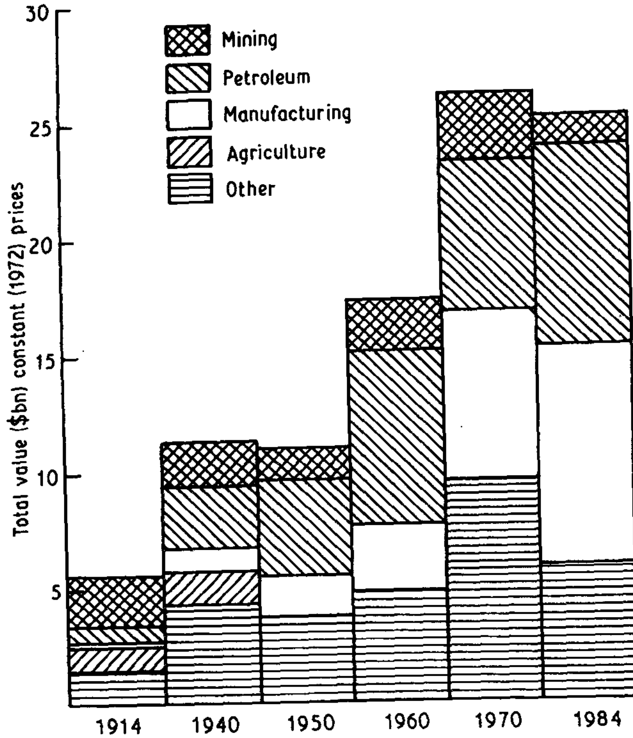

Figure 1.1 Sectoral distribution of US direct foreign investment in less developed countries (%).

Sources: Wilkins (1974), table XIII.2; US Department of Commerce, *Survey of Current Business*, various issues.

the Third World only some 100 manufacturing subsidiaries were formed before the outbreak of World War II, with India as the major destination (Vaupel and Curhan 1973).

However, TNC activity in the Third World continued to be dominated by the primary sector throughout this period. Investments made before World War I were consolidated and expanded while new areas were incorporated as sources of raw materials for TNCs, for example in Africa and the Middle East. These included tea estates and coffee plantations in Kenya, rubber plantations in Liberia, copper mines in Zambia, precious metals in South Africa and oil in the Middle East. As a result, despite a relative decline in the importance of mining after World

War I, the primary sector still accounted for more than half of US investment in the Third World in 1940. Manufacturing on the other hand accounted for less than a tenth of US DFI in these areas at that time (Figure 1.1).

The quarter-century after World War II saw an unprecedented expansion of TNC activity. This was initially led by US capital, but since the 1960s European and Japanese firms have been growing at a faster rate. The growth of TNC activity was facilitated by major advances in technology in the fields of transport and communications. These included the development of jet aircraft, container transport and international telephone and telex links. These developments vastly increased the ease of co-ordinating geographically dispersed operations in different parts of the world. They also reduced the costs of shipping products between these different operations (Vernon 1977, 2).

In the 1950s and 1960s this expansion was reflected in a rapid growth in the number of new subsidiaries established and in the level of direct foreign investment (Buckley and Casson 1976, table 1). In the 1970s, however, changing strategies on the part of TNCs, measures by some Third World governments to unpackage foreign investments, so that the different components – technology, finance, management – were acquired separately, and the growth of non-equity sources of finance, such as the Eurocurrency markets, meant that direct foreign investment declined in significance (Oman 1984). This has been particularly marked in the Third World, where there has been no increase in the real value of DFI since the late 1960s (World Bank 1985, 126). However, this has not meant any diminution in the significance of TNCs for the world economy. Indeed, the sales of the largest 100 TNCs grew faster than the GNP of the capitalist world in the 1970s (UNCTC 1983, 47).

The most rapidly growing sector for TNC activity in the Third World in the post-war period has been manufacturing. Many states followed import substituting policies in the 1950s and 1960s and often a major beneficiary of these policies was the transnational corporation. In the late 1960s and 1970s a number of Third World states adopted more export-oriented industrialization strategies, the manifestation of which was the mushrooming of Export Processing Zones around the world. The attraction of TNCs was again a prime objective of such a strategy. At the same time the importance of the primary sector has declined as a result of nationalization or voluntary divestment. Between 1950 and 1984 the share of US DFI in the Third World which was employed in the manufacturing sector more than doubled from 15 to 37 per cent, while the share of the extractive industries fell from over a half to less than 40 per cent

(Figure 1.1). Data from both host LDCs and other home countries of the TNCs confirm the growing importance of the manufacturing sector.

THE SIGNIFICANCE OF THE TRANSNATIONAL CORPORATION IN THE WORLD ECONOMY

There are two ways of viewing the significance of the TNC in the world economy. The first is quantitative and highlights the size of such companies and their weight in such things as world production, foreign investment, technology creation, finance and trade (see, for example, Lall and Streeten 1977, 11–15). The second is qualitative and looks at the growth of TNCs as a process which is intimately related to, and highlights, key tendencies in the capitalist system.

There is ample evidence of the quantitative significance of the TNC in the world economy today. It has been estimated that some 350 such firms, controlling 25,000 subsidiaries, accounted for 28 per cent of the Gross Domestic Product of the capitalist world in 1980 (UNCTC 1983, 46). In terms of size, the largest TNCs have sales which exceed the total Gross Domestic Product of most Third World countries (see Table 1.1).[2] In many major industries, such as oil refining, aluminium, vehicles and tobacco, a substantial proportion of the capitalist world's production is accounted for by a handful of TNCs.

Not only do the TNCs account for an important share of world production but they also control a major part of all direct foreign investment. According to one recent estimate, 500 TNCs were responsible for 80 per cent of all direct foreign investment (Stopford and Dunning 1983). They are also a major force in world trade. In the early 1980s exports from the home base of 500 TNCs accounted for some $350 billion (Stopford and Dunning 1983, table 4.1), about 28 per cent of total exports from the advanced capitalist countries. If exports by subsidiaries were also included, TNC-linked trade would be even higher. In the case of the United States it has been estimated that as much as 90 per cent of all trade was generated by TNCs (both US and non-US TNCs) in the late 1970s (UNCTC 1978, annex table IV. 9). A similarly high proportion (over 80 per cent) of UK exports was accounted for by local and foreign TNCs in the early 1980s (Business Monitor 1983, table 6.2), and the situation is not very different in other countries.

TNCs are also a major force in the development of new technology. They tend to be concentrated in technology-intensive industries and to spend a higher proportion of their sales on research and development (R & D) than non-TNCs (Hood and Young 1979, 68–9). Not surprisingly then a substantial proportion of all R & D in the advanced capitalist