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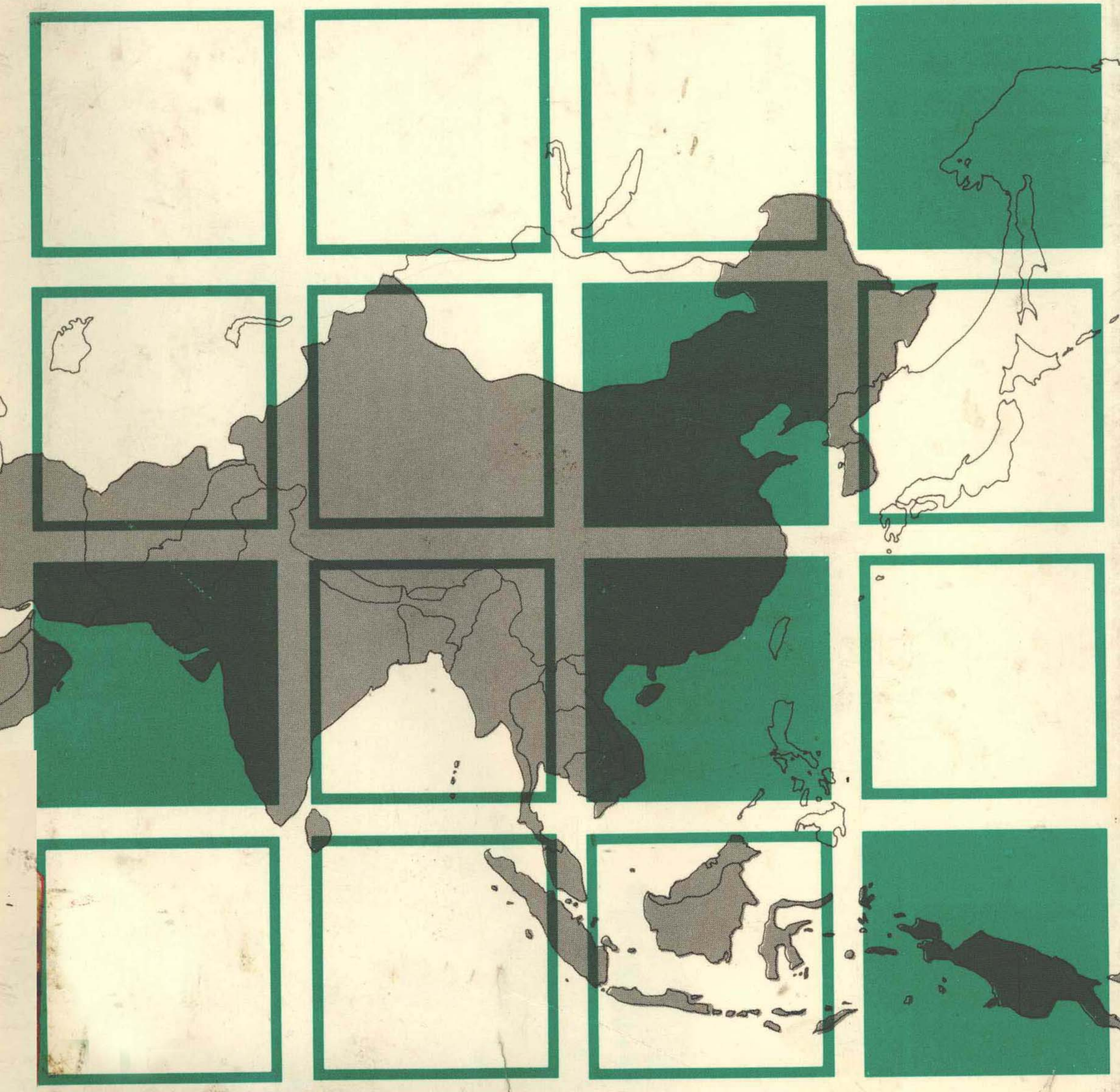

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Acknowledgments

A book that reports on a subject as broad as the topic of this study, covering Latin America, Asia, and Africa, can hardly be the work of one person. This book draws freely from the ideas and data of researchers who were working closely with me and from other writers.

My interest in Third World multinationals grew out of a study on choice of technology that I conducted in Indonesia for Professor Mohammed Sadli, then minister of manpower. That study, sponsored by the Harvard Institute for International Development, brought me inside several subsidiaries of firms from other developing countries. The differences between those subsidiaries and the subsidiaries of multinationals from other countries were striking and had not been systematically studied.

Some of the hypotheses for this research on Third World multinationals had their beginnings with K. Balakrishnan, who proposed to write a doctoral dissertation on Indian joint ventures abroad, a work that was never completed. The Thai data and much of the accompanying analysis that appear in this book come from Donald Lecraw, who wrote a dissertation at Harvard on choice of technology in Thailand. Lecraw followed his Thai study with other research in Southeast Asia, on which I have also drawn. For Mauritius and the Philippines, I have reported data from the doctoral thesis prepared by Vinod Busjeet on multinationals from developing countries. Both Lecraw's and Busjeet's data have been invaluable to me.

Carlos Cordeiro conducted interviews in India for the study and produced an undergraduate thesis at Harvard on the foreign investments of Indian firms. Sonia Dula collected data from firms in Mexico. Sergio Koreisha accompanied me for interviews in Argentina, Brazil, and Peru. He provided ideas as well as Portuguese and Spanish vocabulary.

Early in my research I met members of the Instituto para la Integración de America Latina (INTAL), in Buenos Aires, who were examining Latin American joint ventures. This resulted in a fruitful exchange of ideas, data, and some interview notes. In 1979, the East-West Center in Honolulu organized a conference, "Third World Multinationals," under the direction of Krishna Kumar. I have used ideas and data from the participants in that conference.

The conceptual underpinnings of the study derive largely from the works of Stephen Hymer, Raymond Vernon, Oliver Williamson, John Dunning, Peter Buckley, and Mark Casson. Raymond Vernon, Max Hall, Donald Lessard, Donald Lecraw, and anonymous reviewers provided valuable comments on drafts of various chapters.

The work of recording data from my notes, others' notes, and from published sources fell primarily on Nathan Fagre, Mark Worrell, Carlos Cordeiro, Sonia Dula, and Liliana Scagliotti. It was Kristin Manos whose hard work and concern finally got a computerized data bank into operation. Most of the calculations and tabulations from the data were performed by Sushil Vachani. The translation of my handwriting into properly spelled, typed words was done by Madelyn Kissock.

Of course such a study could not have succeeded without the cooperation of a large number of government officials and company managers in developing countries. Many prefer not to be named, and the list of those who helped would in any case be too long to provide here. One company, however, must be singled out for its special hospitality, even outdistancing the high norms set by a number of other firms. Packages Limited, of Lahore, hosted me and my family for two weeks in Pakistan. Through its managing director, Babar Ali, I came to know one Third World multinational in considerable depth. I should note that only one firm refused an interview and that the vast majority were very cooperative in providing information.

Funds for this study came primarily from the National Science Foundation under Grant No. PRA78-10238. NSF funds were supplemented by start-up money from the Division of Research of the Harvard Business School. Expenses for work in India came from the Ford Foundation (for the uncompleted work of K. Balakrishnan) and Harvard's Center for International Affairs (for C. Cordeiro).

Contents

1 The New Multinationals

In 1928, the Argentine manufacturer S.I.A.M. di Tella established a subsidiary in Brazil to produce gasoline pumps. At about the same time, the company set up manufacturing projects in Chile and Uruguay and commercial offices in New York and London. This book is about that firm and many other firms in developing nations that have recently made direct investments abroad.

The reader who has been exposed to the vast literature on multinational enterprises based in the United States, Europe, and Japan and who has been impressed with the figures showing the importance of those firms is entitled to ask whether investors from the developing countries are significant enough for him to read a book on the subject. It is true that when Raymond Vernon's *Sovereignty at Bay* appeared in 1971 firms based in the developing countries had invested only a small fraction of the $70 billion that U.S.-based multinationals had invested overseas.[1] Twenty years ago, only a few pioneering firms from the developing countries had established foreign footholds. Several Argentine firms had begun manufacturing operations in nearby countries before the Second World War, and, to be sure, quite a number of banks from the developing countries had already set up overseas offices. There were only a few other examples.

In the 1950s and 1960s, it would have been difficult to imagine that developing countries could offer the environment that would generate many local manufacturing firms with competitive advantages sufficient for international competition. Change, however, has been rapid. In 1959, it is reported, Singapore had only two factories: a brewery, which accounted for 75 percent of the island's manufacturing output, and a rubber shoe factory.[2] From 1960 to 1970, manufacturing output grew at an average annual rate of 13 percent; through the 1970s, it grew at more than 9 percent. By 1976, Singapore's firms were adding some

$700 million of value per year in manufacturing and had invested at least $130 million abroad.

The manufacturing sectors of other developing countries have also grown rapidly. Manufacturing output in a number of countries had, by 1976, reached the scale of industry in some of the smaller industrialized countries. India's manufacturing sector, for example, was almost as large as Sweden's. Brazil's was approaching that of Canada; Mexico's had exceeded those of The Netherlands and Belgium.[3]

For these and a number of other developing countries, the old stereotypes are dramatically out of data. No longer are they simply agricultural economies or exporters of raw materials for the advanced countries. Moreover, manufacturing activity does not consist solely of sweatshops that rely on low-wage and low-skilled workers. Rather, factories in growing developing countries produce steel, paper, and plastics as well as textiles, household appliances, and pots and pans. There is evidence, albeit sketchy, to suggest that the industrial firms in those developing countries are undertaking substantial research and development activities.[4]

The smaller industrialized countries have produced their share of multinational enterprises: Philips from The Netherlands, Atlas Copco from Sweden, Massey Ferguson from Canada, to name a few. It should not, then, be surprising that the NICs (newly industrializing countries) of the developing world have generated a new wave of multinationals. The first Indian manufacturing investment abroad went into production in 1960; foreign investments by Hong Kong firms began about the same time. But by the late 1970s Indian and Hong Kong firms alone held at least 370 overseas manufacturing subsidiaries.

It is very difficult to put together accurate figures on the size of direct investment emanating from the developing countries. However, the stock of direct investments held abroad from the developing countries was at least $5–10 billion by 1980, as best one can estimate from official sources and from some careful guesses (see appendix for sources of data). To supplement official sources, my associates and I have assembled a "data bank" containing facts on 1,964 overseas subsidiaries and branches established by firms based in developing countries. The parent firms numbered 963. The subsidiaries and branches were located in 125 host countries, and 938 of them were engaged in manufacturing. The numbers are significant, and the fact that so many investments have appeared in such a short time suggests that the overall numbers are likely to be considerably more impressive in the next few years.

Already investors from other developing countries are extremely important to certain host countries. In Indonesia, since 1967, if petroleum and mining are excluded, other developing countries have accounted for some 31 percent of all foreign investment projects and 21 percent of their value.[5] This is more than Japanese or North American or European investments. In Thailand and Singapore, a third or more of all foreign investment appears to come from other developing countries. For governments in host countries, decisions on the costs and benefits of foreign investors from other developing countries already have a significant impact on development.

Moreover, a large proportion of the parent firms are concentrated in several developing countries. The investments have originated primarily in countries of South and Southeast Asia and Latin America, in large part from the newly industrializing countries. It is a rare foreign direct investor whose home is in the Middle East; a still rarer one, in Africa.[6] For the home countries, the emergence of firms that want to go abroad poses political and economic questions. What is the impact on development at home? What is the impact of policies toward locally owned firms on the ability of the country to act in its own interests toward multinationals from elsewhere? Which local enterprises, if any, should be restricted from going abroad? Which should be encouraged?[7]

Whatever the overall figures or the figures for particular countries, they do not fully capture the importance of foreign investors from developing countries. In many ways, they are quite different from the more traditional multinationals from the United States, Europe, and Japan. Some of the differences lead to hopes that such investors can make a special kind of contribution to the development of poor countries. The technology that they transfer and the products that they make, this study will argue, are generated from the conditions of the home countries and thus might be especially well suited to the needs of other developing countries. In the jargon of the development literature, some of these firms offer "appropriate technology" and "appropriate products." There is some evidence, too, that these investors offer their products at a low price to the consumer and, perhaps, their know-how at a low cost to the host country.

Further, the firms appear to conform to some of the demands of their developing country hosts. They are particularly likely to share ownership with local investors. Some 90 percent of the manufacturing subsidiaries of developing country parents identified in this study are joint ventures, compared with 40 percent for U.S.-owned multinationals. Moreover, the Third World firms seem to grant a great deal of autonomy to their subsidiary managers.

Subsidiaries of developing country parent companies are almost all in other developing countries, in contrast to those of multinationals from the United States, which have historically established their foreign manufacturing plants first and most frequently in other advanced countries. In fact, the majority of investments of firms based in developing countries are to countries with a lower level of development than the home countries. More than 65 percent of the subsidiaries identified in this study were in countries with less value added in manufacturing than that of the parent countries (see table 1.1). The majority of investments to countries with greater value added were from Singapore, which is very industrialized but has only a small total value added in manufacturing. If per capita GNP is taken as the measure, the results are similar, but Singapore is no longer an exception. The few cases of investments in countries that are richer than the home country, according to per capita GNP, are mostly from India, where this measure understates the size of the industrial sector.

The transfer of technology from developing country to developing country, and especially to the poorer countries, makes the parent firm from a developing country a concrete example of South-South cooperation; it is one of the few. With "collective self-reliance" a part of the rhetoric of the North-South dialogue, these investors have entered the picture. They offer hope of less dependence on firms from the rich countries of the North for the technology needed for development. The United Nations Conference on Trade and Development (UNCTAD) commissioned what may have been the first papers on "developing country joint ventures," as they are usually labeled by the international organizations.[8] Recently the U.N. Industrial Development Organization (UNIDO), the U.N. Centre on Transnational Corporations (UNCTC), the Food and Agricultural Organization (FAO), and the International Labour Office (ILO) joined UNCTAD.[9] UNIDO has continued to sponsor work on the subject.[10] Most of the U.N. organizations emphasize the role of "developing country joint ventures" in self-reliance in the South and on their contribution to the New International Economic Order.[11]

Another characteristic of foreign investors from developing countries makes them of special interest to a somewhat different group of international organizations. Most of the investment of these firms is in neighboring countries. For instance, of 494 foreign manufacturing subsidiaries of a parent firm in Southeast Asia, 428 were in the same region;

Table 1.1
Number of subsidiaries of parent firms from developing countries (1975)

Manufacturing value added of parent's country ($ millions)	Manufacturing value added of subsidiary's country ($ millions)							
	Less than 500	500–849	850–854	855–899	900–999	1,000–1,499	1,500–1,999	2,000 or more
Less than 500	23	15	47	0	6	23	2	5
500–849	1	1	37	1	0	2	0	3
850–854	1	0	0	0	0	2	0	0
855–899	30	26	99	0	0	20	15	7
900–999	18	0	0	0	0	0	0	2
1,000–1,499	18	2	25	1	0	2	3	3
1,500–1,999	27	15	34	3	3	52	11	18
2,000 or more	76	73	23	1	14	20	19	51

118 of 157 subsidiaries of a parent firm in Latin America were in the same region. Because of the regional investment patterns, organizations interested in regional economic integration have seen local multinationals as vehicles for reaching their goals. The Instituto para la Integración de America Latina (INTAL), in particular, has promoted such firms in Latin America and conducted research on locally based multinationals and on barriers to their spread within the region.[12]

This study argues that some of the characteristics of Third World multinationals are beneficial to the development of both host and home countries but that new multinationals carry with them some important costs, including limited access to export markets, technology that may be considered out of date, and extensive use of expatriate personnel. Moreover, most of the Third World multinationals are quite different from the joint ventures envisioned by some of the international organizations. Rather than being equal partnerships in a new enterprise, most are parent-subsidiary relationships that are not so different from ventures set up by traditional multinationals from the industrialized countries. Whatever the characteristics of the firms, their future does not seem as unclouded as some of their supporters might claim.

The new multinationals will affect not only the developing countries but in some cases will compete with traditional multinationals from the advanced countries. They already challenge markets held by the established firms and, by providing alternatives to host countries, weaken the bargaining power of certain traditional multinationals in their negotiations with developing countries. On the other hand, the new multinationals have, on occasion, combined with multinationals from the advanced countries in mutually beneficial joint activities.

The apparent differences between the foreign investors from developing countries and the multinationals from the industrialized countries pose a major challenge to theories that purport to explain foreign direct investment. Can the same concepts that have proved useful in studies of the traditional multinationals help in understanding the new foreign investors? My contention is that they can and that the process of applying the concepts to the new firms aids in understanding both the concepts and the different kinds of multinationals.

Terminology

This book is about foreign direct investment from developing countries. Consequently, it covers enterprises with parent firms in developing countries only if those parents establish branches or subsidiaries in other countries. For an enterprise to be included in the study, its overseas operations must have some kind of ownership tie to the originating firm in the home country.[13] To be a direct investment, the subsidiary or branch must, to some extent, be under the control of the parent firm. In most cases, such investments are undertaken by a parent firm that goes abroad with management and know-how to do something similar to what it was doing at home. Foreign direct investment does not include portfolio investments or other purely financial flows, even though these are important, particularly for the oil-rich countries.[14] Further, the book does not concern itself with the emigrant entrepreneur who decides to try his fortune abroad. Indian, Lebanese, Syrian, and overseas Chinese businessmen have for decades migrated to a number of developing countries and carried with them their skills and, sometimes, capital. They provide an interesting topic for research. In fact, their activities will play some role in this study, but only because they have had, on many occasions, an influence on the direct investors that are the subject of the research at hand.

To be considered in this study as a parent firm in a developing country, an enterprise must be owned by nationals of that country. Thus, Volkswagen of Brazil, which holds equity in Volkswagen of Peru, is not included in this study, since its ultimate ownership is German. Nevertheless, some such ventures are similar to the firms reported on in this study. Sometimes the subsidiaries of the traditional multinationals have adapted product or production techniques to developing country markets. Those subsidiaries are called on later to transfer knowledge to other developing countries. The resulting behavior may be different from that typical of the ultimate parent enterprise. Like Volkswagen of Brazil, because the ultimate ownership usually is in the advanced countries, firms registered as coming from the usual tax havens (Panama, the Bahamas, New Hebrides [Vanuatu], Liberia, and The Netherlands Antilles) are not included in this study unless there was some clear evidence to link them back to a parent in a developing country. An attempt has been made to eliminate advanced country firms that have used Hong Kong simply as a point of registry.

Not only must the ownership be in the hands of developing country nationals but management must be from the local culture. Thus, the British-managed firms of Hong Kong, such as Jardine-Matheson and the Swire Group, were not included.[15] The British in Hong Kong seem to be first and foremost British. On the other hand, when managers appear to have been integrated into the local business culture, their firms have been included regardless of the managers' ethnic origin. Accordingly, Argentine firms managed by Anglo-Argentinians have been included. Although Anglo-Argentinians retain, in many cases, English language schools and English clubs, their businesses seem to be run much like firms whose owners or managers are Argentinians of Spanish or Italian descent.

Similarly, since their foreign investment decisions were not usually made by local management or when the firm was locally owned, we did not include firms for which ownership and headquarters have very recently shifted from an industrialized country to a developing one.[16] Thus, Sime Darby, once a British firm but now a Malaysian one, is not included.[17] Its overseas subsidiaries were simply acquired by the Malaysians as a result of the acquisition of the parent enterprise. But such firms presumably do eventually behave like other local firms, as management is increasingly made up of nationals. Thus, Bunge y Born, with more than three-quarters of a century as an Argentine firm, was included in this study.[18] Admittedly, the line is on occasion a fine one for each of these exclusions. For example, we have included Textile Alliance, Ltd., a Hong Kong firm owned largely by a Japanese firm (45 percent) and Jardine-Matheson. The Japanese interest was acquired only recently; and management seems to be in the hands of Chinese. Luckily, such difficult judgments had to be made for only a few enterprises.

To avoid confusion, the term "developing country" should also be defined. In this study, the developing countries are those so classified by the United Nations Centre on Transnational Corporations. They are the countries with market economies in Latin America, Africa (except South Africa), Oceania (except New Zealand and Australia), and Asia (except Japan). Thus, the study does not cover investments from low-income European countries, such as Portugal, Spain, and Greece; Israel; or the centrally planned economies of the Soviet Union, the Communist countries of Eastern Europe, and the People's Republic of China.[19] It should be understood, however, that some of the most active investors in the developing countries covered here are ethnic Chinese—in Hong Kong, Taiwan, and Singapore.

The term "Third World" will appear only occasionally here. It is not a very satisfying term because it means different things to different people. Whenever I use it, I simply mean developing countries.

The firms from developing countries that are making foreign direct investments can be called "the new multinationals" if one broadly defines "multinational enterprise" to mean an enterprise that owns facilities in more than one country. The story is different if a stricter definition is used. For example, in Harvard Business School's recent Multinational Enterprise Project, a U.S.-based firm was not counted as a multinational enterprise unless it had manufacturing subsidiaries in six or more foreign countries. By that standard, only 6 of our 963 developing country parent firms would qualify—two from India, two from Hong Kong, one from Colombia, and one from Mexico.[20]

Data and Methodology

Data on the foreign investments of firms from developing countries are hard to come by. Some governments in developing countries provide information on investment outflows, but the figures are, in many cases, quite incomplete. A number of governments provide some information on inflows from developing countries, but these numbers are also frequently unreliable and rarely match the reported outflows from the investors' home countries.[21]

In an effort to learn more about individual investments in a wide range of countries, my associates and I surveyed a wide range of publications (such as *The Economist*, the *Far Eastern Economic Review*, and *Boletín Sobre Inversiones y Empresas Latinoamericanas*) and national directories (such as *Guia Intervest*, Rio de Janeiro, 1978). We also obtained access to additional, unpublished material from governments in Indonesia, India, Thailand, the Philippines, and Mauritius.

Particularly important to our efforts to collect statistics and learn more about the decisions being made by managers were interviews that we conducted in parent firms and subsidiaries in Taiwan, Hong Kong, the Philippines, Indonesia, India, Sri Lanka, Mauritius, Mexico, Peru, Brazil, and Argentina. In total, managers in some 150 enterprises were interviewed.

The data bank that was constructed from government sources, publications, and interviews could hardly be said to contain a random sample of foreign investors from developing countries. On the other hand, there is little reason to believe that the biases of the data bank would be the same as those of official published sources; yet, the two bodies of data accord strikingly well insofar as they can be compared. This is shown in table 1.2. Official sources reported on the total dollar