Transnational Corporations and China's Open Door Policy

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Preface and Acknowledgments

One of the innovations of the international community in recent years is the establishment of a machinery by which issues concerning transnational corporations can be aired and practical measures in dealing with them can be discussed and negotiated. Within the framework of the United Nations, this machinery is path-breaking in at least two respects. One is the subject matter itself since until the creation of the United Nations Commission on Transnational Corporations, these activities were not recognized as appropriate topics for intergovernment deliberations. The second is participation by experts in their individual capacity from various backgrounds in business, labor, or academia. Formerly, they were at most involved in the background in intergovernment bodies.

The editors of this book have participated in the work of the United Nations machinery at various stages. We have been impressed by the importance of transnationals to world development and are convinced of the usefulness of parallel work outside the United Nations so that the issues under consideration can be more specific and the environment can be less subject to concerns regarding national positions and diplomatic rules.

When China decided to pursue an open door policy, the implications were far-reaching. Suddenly, there was a real need for the Chinese to understand transnational corporations and vice versa. The idea of an international conference on transnational corporations and China's open door policy that would promote such an understanding was born. However, the logistics of organizing a conference of over one hundred participants was overwhelming. It was not until winter 1985 that concrete plans were formulated and the cooperation of all those involved secured.

We are grateful to all the participants for their contributions to the conference, which took place in Tianjin, China, October 27–30, 1986. Although considerations of space and balance have prevented the inclusion in this book of a number of the papers presented, many of them will be published elsewhere, including the companion volume in Chinese. Our thanks go especially to Li Lanqing, at that time vice mayor of Tianjin, who set the tone of the conference in his opening statement: to the members of the presidium and chairmen of sessions, who managed the proceedings efficiently, but whose papers are not reproduced here—notably Clement G. Kahama, (ambassador of the Republic of Tanzania), S. Balde of UNESCO, Liang Xian of China Merchants, Wilfried R. Vanhonacker of Columbia University, K.C. Mun of Chinese University of Hong Kong, Walter A. Buhler of Arthur Andersen, Vichai Trangkasombat of Coca-Cola, and David Sycip of Asean Finance Corporation. Almost one hundred people were involved, day and night, in the conference preparations. Unfortunately, they are too numerous to mention.

The conference benefited from direct financial contributions from UNESCO and indirectly from major donors to the China-International Business Project of Columbia University—notably, Maria Lee, the Bei Shan Tang Foundation, the General Electric Foundation, Merrill Lynch, Hong Kong Shanghai Banking Corporation, and AMAX Foundation.

This book would not have been possible without the generous help of Marianna E. Oliver, who worked closely with the editors on the text.

Introduction

In recent years, the Chinese attitude toward transnational corporations has changed dramatically. This change is reflected in official pronouncements of the open door policy. Transnationals are no longer viewed as tools of capitalist exploitation but as agents and resources that can serve the purposes of Chinese development.

Nevertheless, the precise role of transnational corporations and the rationale of the Chinese open door policy have rarely been brought together and articulated in China. In academic as well as policy discussions, transnational corporations remain mystified. They continue to be monopolist by definition. There has been little empirical study of their activities and operations, if only because of lack of information. Even for those whose operations take place in China, such as joint ventures and cooperative arrangements, detailed reporting, not to say analysis, is scanty, apparently influenced by considerations of confidentiality. Those whose task it is to deal directly with transnational corporations are faced with a dilemma. On the one hand, they are anxious to conclude arrangements speedily so as not to be accused of obstructing China's open door policy. On the other hand, they are reluctant to make any decisions that might in retrospect be regarded as not protecting the national interest.

This dilemma is rooted in the intellectual basis of China's open door policy as well as in the bureaucratic rules of the game. One school of thought is wary about the link between the policy and bourgeois liberalization. It frowns upon all the "polluting" influences, ranging from pornography to rock music, from humanism to Western-style democracy. Although this school is countered by assurances that the open door policy and the campaign against bourgeois liberalization are complementary rather than conflicting, and that the open door policy is a long-term decision that will not be altered when political leaders change, the cautious see advantage in hedging. Moreover, the rationale of the open door policy permits both broad and narrow interpretations. In a broad sense, an open door policy recognizes the common heritage of human ingenuity and wisdom, which cannot and should not be confined within national boundaries. In economic terms alone, a nation's long-term survival in a competitive world depends on the ability to engage in activities that can stand comparatively with the rest of the world. In a narrow sense, an open door policy is identified with a development strategy that is export-oriented or that welcomes the inflow of foreign investment and technology.

In such circumstances, transnational corporations' perceptions of Chinese policy is also somewhat uncertain. Many of them are influenced by their personal inclinations and experiences. Those who have been impressed by the genius of Chinese innovations throughout history are convinced that the folly of self-imposed isolation and ossification will not be repeated, while those who fear the continuity of Oriental despotism are less sure. Similarly, actual experience in dealing with the Chinese has also varied considerably. Some look forward to continuing and expanding relations that fit into their global strategy, while others have been thoroughly frustrated and vow never again to be involved with China.

The Nankai Conference was organized to promote an understanding of transnational corporations as well as of China's open door policy. It also sought to provide a guide to policies by sharpening new tools of analysis and evaluating experiences in other countries. The participants included academicians in various disciplines, government officials, and transnational executives. Over sixty papers were presented. Most authors departed from their written texts and expanded their arguments significantly in introducing their papers. A major part of the conference was devoted to informal as well as formal exchanges of views.

For convenience, the chapters based on the conference are organized in three parts.

Part I gives a theoretical and empirical overview of transnational corporations (or multinational enterprises—the terms may be used interchangeably). It summarizes the salient developments to date as well as the arguments of major schools of thought. The lead chapter by John Dunning poses the fundamental question of whether a new theory of transnational corporations is required given the significant changes in the world environment. These changes include the continued trend toward globalization of the world's major enterprises, increased two-way flows of investment, shifts in the geographic pattern of transnational corporation activities, and an increasingly conciliatory attitude toward them. The result is an eloquent defense of his eclectic theory, which can serve as a framework for explaining a variety of phenomena. This is not surprising since the eclectic theory is already a synthesis of numerous less comprehensive theories. As in the case of the paradigms of general theory, such as supply and demand, almost any particular explanation can be fitted in. At the same time, in view of the fact that the numerous changes in the environment are expressly considered for the first time in this framework, the chapter represents an important extension of Dunning's theory as expounded earlier.

Chen Yin-fang observing the same set of changes in the environment, attempts to answer the important question of whether transnationals have a positive or negative impact on development—of the Third World in particular. His recognition of the basic positive ingredients of the transnationals' contribution to productive forces is in striking contrast to most of the writings of his compatriots since the 1950s. The main point, however, is that while one should not deny possible conflicts between the transnationals and the host developing countries arising from differences in their objectives, from certain activities such as transfer pricing and restrictive business practices, or from lack of concern on the part of the transnationals for less developed areas), emphasis should be placed on the policies and measures that developing countries themselves can adopt in order to utilize the capabilities of the transnationals.

A further exposition of the theoretical basis for an open door policy in a developing country is provided by Xian Guoming. This basis is not derived from the pronouncements of Lenin or Mao, but from Western thought—notably, the theory of internalization. In spite of certain limitations of the theory, the key role of transnationals in the contemporary international division of labor is affirmed. Such division of labor in accordance with the law of comparative advantage is seen to have accelerated the development of all countries, and developing socialist countries should participate in it through the pursuit of a long-term open door policy.

Jack Behrman, more specifically, suggests that appropriate government policies toward transnationals need to be designed according to the different orientations and strategies of different types of transnationals. Since resource seekers, market seekers, and efficiency seekers have different strategies, different government policies should be designed in order to obtain the most effective contribution from each. One of the conclusions reached is that transnational corporation codes of conduct are often ineffective or even counterproductive because they are either too vague or too specific. This argument, however, is countered by Jun Nishikawa, in chapter 6 as well as by Carsten Ebenroth and Joachim Karl in chapter 11.

Policy dilemmas for developing countries in respect to transnationals in knowledge-processing industries, notably computers and telecommunications, are emphasized by Edward Roche. This sector lags in most developing countries as compared with the rapid pace of innovation in developed economies. If a developing country adopts a relatively open policy in order to allow technological diffusion from transnationals, the domestic industry may be unable to withstand superior competition. On the other hand, if barriers are erected against such diffusion, the domestic technology may soon become out of date. Indeed, there are already vast amounts of wasted investment, both in human resources and in hardware, rapidly becoming obsolete in developing countries. Correspondingly, international arrangements also lag behind the problems and opportunities brought about by the microelectronic revolution.

A more forceful reminder of possible negative aspects of transnationals is offered by Jun Nishikawa. Not only does he see inherent conflicts between transnationals and host and home countries, but also a linkage between transnationals and the current world crisis. The conflicts are regarded as inevitable given the pattern of international division of labor, transfer pricing, restrictive business practices, and the control over subsidiaries desired or brought about by transnationals. The world crisis, in his eyes, ranges from unemployment and stagflation in developed countries to crushing external debt and abject poverty in developing economies. His recipe for action is adequate control of transnationals at the international, national, and local levels. In particular, he envisions a new society in which human beings, with the aid of solidarity of labor, will control transnationals and not vice versa.

Part II provides an international perspective. The experience of other countries in their relations with, and policies toward, transnationals are just as valuable to China as the lessons from China are to the rest of the world. Stefan Robock characterizes the posture of the United States government toward inward and outward international direct investment as essentially "no door" rather than an open door policy. With very few exceptions, there are no special institutions or procedures to screen the inflow or outflow of foreign investment. After a review of the trend and pattern of investment behavior of U.S. private enterprises with different strategies, he concludes that attracting U.S. investment to China depends mainly on the economic, political, policy, and administrative situations in the host country. The main determinant of U.S. investment decisions is profitability. Resource seekers will weigh the attractiveness of various host countries. Market seekers must have the ability to repatriate some of their profits though they may be required to earn some foreign exchange. Import-substituting industries can eventually be converted to export industries.

The new open door policy of India in the 1980s is the theme of Anant Negandhi's chapter. The important point is that China is not the only developing giant to pursue such a line. The policy is examined in the context of the historic evolution of Indian industrial policy. Although as of the 1986 conference, it is too early to tell how the policy will be received in India, an analysis of the impact of earlier policies of restricting inward investment and payments for technology transfers indicates the contending forces. These are implicit in the positive effects of earlier policies—namely, the development of indigenous entrepreneurs and technological capabilities, and in their negative aspects, notably the monopolist domestic market and the stagnation of industrial and technological programs.

In contrast to the praise heaped by many observers upon the Thai model of development, Suthy Prasartset laments the utter dependence of Thai society on transnationals. Trade dependence, financial and debt dependence, technological dependence, and cultural dependence are all the results of transnational corporate control of local productive processes and the weakening of the indigenous bourgeoisie. Technological domination by transnationals, in particular, reveals itself in restrictive contractual arrangements, high fees, and pervasive transnational influence. Transnational control over important branches of industry is exercised through technology, market channels, imports, finance, and management as well as through equity investment. The message for Chinese policy is that if China's present selective relinking of its economy with the transnationals goes beyond a certain point, there is a danger that it will result in financial and technological dependence as well as in cultural disruption through the emulation of transnationalized life-styles and tastes.

The case of Hungary is of special interest because its experiments in new relations with transnationals as well as experiments in overall reform of the socialist economy started much earlier than in most other socialist countries. Mihály Simai identifies the evolutionary process of this new relationship. Before the second World War, the view of transnationals was dominated by ideological and political preoccupations. Transnationals were characterized as monopoly capitalist and not seriously studied as potential partners or possible organizational models. The increasing role of transnationals and the expansion of Hungary's trade with the West demanded a new approach. As the experience of this trade proved largely satisfactory, and the political environment became more favorable, many forms of cooperation with transnationals were established. Since 1986, there have been qualitative changes in this cooperation as a result of the ongoing economic reforms and the establishment of a new legal framework that facilitates transnational capital inflow and free trade zones. However, the extent of transnational corporation involvement to date remains limited.

Common to both developing and developed countries is the international environment. Carsten Thomas Ebenroth and Joachim Karl note in chapter 11 the renewed importance in recent years of foreign direct investment. There has been a change in attitude on the part of most developing countries about the impact of such investment, and their debt crises have enhanced the attractiveness of alternative sources of finance. Contrary to the view expressed by Behrman earlier, Ebenroth and Karl underline the usefulness of an international code of conduct. Such a code could serve as a GATT for international investment. The draft United Nations code can already provide a guide to negotiating and interpreting bilateral investment contracts. It can also improve the investment climate of developing countries and ease the current debt crisis.

Part III deals directly with China's open door policy. The relevant papers presented at the conference were very many and voluminous, covering a wide range of topics, from strategic considerations to specific policy, sectoral, and geographic issues, from macro development to experience at the enterprise level. Only a few of these papers can be included in this book.

The chapter by Zhang Yangui provides a forceful reminder that the decision to adopt an open door policy raises the follow-up question of the choice of competing strategies. After an assessment of the external and internal environments, a strong argument is presented for a mixed approach embodying import substitution, export promotion, and export substitution as well as resource exploitation, thus rejecting simpler or mutually exclusive solutions. Import substitution becomes the dominant area for attracting foreign capital, mainly because it is appropriate for the basic industries. These may be sunset industries in developed economies, but they are sunrise industries in China. This strategy fits with the redeployment of industries in the global strategy of transnationals as well as with China's development plans. However, export promotion is suitable for light industries, notably textiles, which are labor intensive and which must earn foreign exchange in order to support import-substituting industries. Export substitution, defined as a transition from labor-intensive exports to technology and capital-intensive exports, is also feasible because China, like India, has some fairly advanced basic industries. Some of China's natural resources, such as agricultural and mineral products, have export surpluses and will continue to provide a substantial portion of export earnings. This mixed approach is to be accompanied by the use of various forms of cooperation in different industrial sectors and geographic regions. It also requires close coordination of the various components of the strategy.

Some of the strategic considerations are echoed in chapter 13 by Wang Zheng Xian. In particular, import substitution is affirmed as part of a general policy of welcoming foreign direct investment. Skepticism is expressed about the usefulness of existing cost-benefit analysis techniques in selecting projects, in view of the lack of efficient markets and the tenuous estimates of shadow prices and indirect effects. Despite the general conclusion that the positive effects of foreign direct investment are likely to outweigh the negative ones, the chapter is in agreement with many foreign observers that China's investment climate remains a problem.

An external view of China's policies and relations with transnationals is offered by S. J. Noumoff. The problems confronting China since the historic decision of the Third Plenary of the Eleventh Central Committee are found to be enormous despite the correctness of the general policy line. The uneven development of regions is both deliberate and unavoidable since it is beyond

China's means to develop all areas simultaneously. Yet, the internal transfer of skill and technology from the more prosperous to the less prosperous areas may not be sufficient in spread and scale to avoid inequities. While many positive experiences with transnationals are reported, the negative experiences should not be lost sight of. The negative features include the receipt of outdated technology, overvaluation of foreign technology, undervaluation of Chinese contributions in joint ventures, vague contractual arrangements, and lack of Chinese participation in foreign marketing. All these are illustrated by cases such as the Remy-Martin of Tianjin wine joint venture, the Wuhan iron and steel works equipment acquisition from Japan, the Baoshan steel complex, a Chengzhou watch factory, and a shirt project. The inescapable conclusion is that it was nonsensical in the past to adopt a contemptuous attitude toward all things foreign. It would be equally nonsensical now to worship them.

Some of the problems in China's relations with transnationals arise from a lack of mutual understanding of each other's laws and regulations. Preston Torbert's chapter documents problems in technology transfer between Chinese and U.S. parties. A mutual understanding will allow each side to realize that certain demands that may appear unwarranted can result from legitimate considerations. This is illustrated by U.S. parties' refusal to give bank guarantees, insistence on a breakdown of technology payments and a prohibiting of sales to other countries of products made with imported technology, and uncertain interpretation of the effect of takeovers or contracts. It is therefore suggested that each party should listen carefully to the other's demands and find out the reasons underlying them.

The problems of transnational management of human resources in China are examined in a field study reported by Murray Bovarnick. Those concerning transnational expatriates in China may come as a surprise both to the casual observer and to the Chinese themselves. For example, the total cost of maintaining a U.S. manager in China runs as high as $250–300,000 per year, reflecting the demanding nature of the work and the unfamiliar and even harsh environment. Among transnational corporations, there are, however, few China-specific policies and practices concerning the selection, orientation, career development, compensation, leave, and education of expatriates. Recognizing that China is not just another developing country, suggestions are made for specific policies for expatriates there, such as measures to provide a supportive environment, special qualifications, more intensive orientation, and longer assignments.

The last chapter, prepared by N. T. Wang, sums up the simple truth that both transnationals and China have been travelling along an untrodden path in their new relations. The errors made in the beginning stages may in retrospect appear totally avoidable or even laughable. Yet, opinions are often formed on the basis either of preconceptions or of outdated empirical evidence. In interpreting the findings presented in this book, it is necessary to remember that China is undergoing important changes and that so are the transnationals. Both may slide down the learning curve. The chapter identifies progress in many respects. At the same time, it should not be assumed that the learning process is automatic; much conscious effort is needed.

A careful study of past experience in relations with transnational corporations, in China and in other countries, together with a forum for exchange of views, should help all parties to profit from a steeper incline of the learning curve. It is hoped that the conference and this book will make a small contribution to this end and will stimulate further efforts elsewhere.

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