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MULTINATIONAL PRODUCTION ENTERPRISES:
A preliminary overview*

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PART I

Introduction

The concept of multinational enterprise, notwithstanding the enormous amount of publications existing so far, is very vague and confusing. Also the terms used to depict the phenomena are pretty numerous: multinational enterprise, transnational enterprise, supranational enterprise etc.

In the first study on the problem prepared by the United Nations Secretariat for the Group of Eminent persons, entitled Multinational Corporations in World Development it was stated that:

> the term "multinational corporation" is used here in the broad sense to cover all enterprises which control assets - factories, mines, sales offices and the like - in two or more countries.[1/]

The Group of Eminent Persons, in their report entitled The Impact of Multinational Corporations on Development and on International Relations, also used a broad definition, namely:

> "Multinational corporations are enterprises which own or control production or service facilities outside the country in which they are based, such enterprises are not always incorporated or private; they can also be co-operatives or state-owned entities."[2/]

The report noted, however, that "the word transnational would better convey the notion that these firms operate from their home bases across national borders".[4/]

1/ United Nations Development of Economic and Social Affairs, Multinational Corporations in World Development (United Nations publication, Sales No. E.73.II.A.11), pp4-6 and Annex II.

2/ United Nations publication, Sales No. E.74.II.A.5, p.25.

During the discussion of the Report of the Group of Eminent Persons at the fifty-seventh session of the Economic and Social Council in 1974, several representatives argued in favour of adopting the term "transnational corporation". In particular, the representatives of Latin America pointed out that the term "multinational corporation" was used in the context of Latin American integration to refer to corporations jointly set up and operating under the auspices of the Andean Group of countries.

In effect, the term "multinational corporations" was replaced by "transnational corporations" in resolutions 1908 (LVII) and 1913 (LVII) of the Economic and Social Council, establishing the Commission on Transnational Corporations and the Centre on Transnational Corporations, respectively.

However, the issue of definition was still pending and the Commission decided that "work leading to a definition of transnational corporations" should be part of its programme. However, although the definitional issue was briefly discussed at the second and third sessions of the Commission, no decision on a precise definition has yet been reached, which indicates both its methodological complexity and political sensitivity. Notwithstanding these suggestions, other UN affiliated organizations (like ILO) still apply the term multinational enterprise.1/

What is common in all these conventional definitions is that transnational or multinational enterprise is defined as a company owning assets in two or more countries.

1/ See for example: Social and labour practices of multinational enterprises in the textiles, clothing and footwear industry, ILO, Geneva 1984.

Consequently then, its distinct feature vis-à-vis other organizations is polycentric organization of economic activity, be it production, marketing, tourism or anything else. The issue of who specifically controls the assets in question is left apart and do not enter the definition. The concept is fairly easy to be measured statistically since any flow of foreign direct investment and any increase in foreign direct investment stocks reflects the changing role of multinational enterprises.

Multinational enterprises as understood in the present report differ principally from this conventional approach. Instead of taking as a yardstick a polycentric organization of economic activity it is argued that a polycentric control of this activity should be the distinct feature differentiating truly multinational enterprises from transnationals. Whether the assets of such an enterprise are located in one or more countries this is a secondary or technical issue. The decisive element is whether the control of such an enterprise is in the hand of one or more countries or their nationals. This concept is much more difficult to operationalize in statistical terms as it cannot be measured directly with FDI flows, and if yes, then they should be taken only as the proxy. For the same reasons the distinction between the home and the host country is to much extent irrelevant as the home and host country could be the same, though not necessarily.

Multinational ownership of the assets is but a precondition for a multinational enterprise in its real meaning. To become one, it has to fulfill several other criteria of which equitable distribution of costs and benefits and contribution to the achievement of some national goals seem to be the most important ones.

The study is focused on production enterprises that is those which are principally engaged in industrial and construction activities leaving aside agriculture, finance, trade, tourism, transportation and communication. This summing up, the term of multinational production enterprises as used in the present report is confined to equity arrangements among two or more developing countries or their nationals to increase their industrial manufacturing output and/or encourage national resource development through a process of mutual and concerted actions for creation, expansion and/or better utilization of their production potentials as well as fostering their intra-trade flows and their bargaining position in the world market with a view to attaining reciprocal benefits from economies of scale, specialization and resources complementarities.

The term multinational enterprise should not be understood to mean large projects, as the semantic may imply. The size of the ventures should reflect the goals pursued and the existing technological, market and financial conditions. It is a matter of technique and not of substance.

Multinational production enterprises of developing countries (MPEDCs) are a specific component of a much broader concept of enterprise-to-enterprise co-operation (ETEC). Its distinct feature is the equity linkage (technical aspect) and, resultant therefrom, the degree of mutual interdependency and control by the parties concerned as well as aims and ways of operation (qualitative aspect).

If we look at it from a more theoretical perspective we can note that the process of internationalization of economic activity goes through three distinct phases. The first one is purely trade related internationalization (we may call it internationalization by results) which essence lies in producing basically for anonymous buyer and with no specific coordination of activity with foreign agents. This is basically dealt with within ECDC programme. The second is co-operation related internationalization (we may call it internationalization by processes) which involves co-ordination of production processes in different countries. Industrial co-operation is a final outcome of this type of internationalization. It implies much deeper interdependence of the parties involved. This is principally the area of ETEC involvement.

The third and the last stage is internationalization by potentials in which case the resources of respective parties are pooled together to achieve some joint targets. This is essentially where multinational production enterprises come into picture. Of course this type of internationalization is much more difficult to attain and to preserve in comparison to the aforementioned. It implies some loss of sovereignty by all parties involved, it raises the question of control sharing, profit and costs distribution, it requires some additional logistical infrastructure etc. At the same time, being born in the world dominated by TNCs, it has from the outset to face the competition from their side.

Therefore, this stage of internationalization has to draw upon previous experience and linkages among developing countries such as trade related or industrial

cooperation ventures. It is for these reasons that so much space in the present report was left for the analysis of such links.

So far, the process of creation of MPEDCs is slow and their subsequent operation is frequently painful and troublesome. To accelerate it a political will of developing countries must be involved which, equipped with relevant tools, may significantly change the present picture. This political will should be manifested in a desire of individual developing countries and economic groupings in setting up MPEDCs targeted at the realization of specific goals individually or regionally prescribed. Any venture serving such purposes could receive special treatment and specific assistance in the form which is both viable and feasible. The goals of such ventures and the form of their support must be, however, decided at the regional and branch level and tailored to the specific needs and conditions existing there.

Setting the perspective for MPEDCs

To properly formulate some action-oriented approach towards multinational production enterprises among developing countries, one has to place the concept in a broader perspective of both direct capital flows among developing countries as well as their enterprise-to-enterprise arrangements. In view of that, Chapter I presents a brief outline of some specific features of foreign direct investment flows among DC whereas Chapter II sets up the concept of multinational production enterprises of developing countries against the background multinational production ventures of the said countries, understood as a basis on which prospective MPEDCs can draw upon, thus adding to the existing complexities of interlinkages among developing countries and reframing the whole concept of cooperation towards more equitable and socially and politically desirable ones.

Chapter III on the other hand completes the picture by evaluating the forces shaping the internationalization of production processes in developing countries.

Chapter 1: Foreign direct investment flows among developing countries

1. General picture

Hosting around 1/4 - 1/5 of the total overseas direct investment(both in terms of stock and inflow), developing countries are at the same time responsible only for a tiny part of the outflow, though their share has increased rapidly in recent years. According to UNCTC, developing countries as a whole represented 0.3% of the total reported FDI outflow in 1970-1972 and their share increased to almost 2% in 1978-1980.[1)] Similarly to what is recorded for developed countries the current outflow is highly concentrated country-wise. Oil-exporting developing countries mainly Kuwait, accounted for nearly one half of the outflow in 1976-1978, followed by Brazil with a share of around one third of the total (see Table 1).

Available data suggest, however, that the number of developing countries investing sizeable capital abroad is rapidly increasing. Among them one should mention particularly Philippines, Republic of Korea, the territory of Hong-Kong, Singapore, India, Argentina, Colombia and Chile. There is no official evidence of FDI from Africa but Latin America and Western and South East Asia are well represented. A characteristic feature of FDI from developing countries, is their concentration in other neighbouring developing countries, which implies an important role of geographic and cultural proximity among the decision motives of developing country foreign investors. By far and large only a small fraction of the flow is directed to the North.

Table 1: Flow of direct investment from selected developing countries, 1967-1978 a/

(Millions of dollars)

Country group and country of origin	Average annual flow 1967-1969	1970-1972	1973-1975	1976-1978	Annual flow 1976	1977	1978
Total selected countries	16.5	31.9	150.3	508.4	706.1	447.1	372.1
Oil-exporting countries	3.7	3.1	69.2	260.2	444.6	200.6	135.3
Algeria	1.0	1.7	11.7	3.1	3.5	5.8	-
Gabon	-	-	1.2	20.6	38.1	19.8	3.8
Iran (Islamic Republic of)	2.7	1.0	-	-	-	-	-
Kuwait	...	...	...	218.2	400.6	122.6	131.5
Libyan Arab Jamahiriya	-	0.7	1.2	0.8	1.2	1.2	-
Netherlands Antilles	-	0.4	1.2	0.8	1.2	1.2	-
Non-oil-exporting countries	12.8	28.8	81.8	248.3	261.5	246.5	236.8
Western hemisphere	7.5	17.2	75.6	167.5	220.5	165.7	116.4
Argentina	...	...	-	8.3	-	1.2	23.8
Barbados	0.3	0.5	0.8	0.4	1.2	-	-
Brazil	4.0	13.7	69.2	151.2	182.4	145.9	125.2
Colombia	2.7	2.7	4.0	15.8	11.5	21.0	15.0
Jamaica	1.2	-	1.6	...	-	-	...
Paraguay	-	-	...	8.5	25.4	-	-
Africa	3.3	1.4	1.9	33.1	21.9	21.0	56.3
Central African Republic	0.2	0.3	0.4	0.4	0.1	0.1	1.3
Egypt	...	...	...	9.0	-	7.0	20.0
Kenya	-	-	0.4	...	4.6	2.3	...
Mali	-	-	0.4	8.4	8.1	8.2	8.8
Mauritania	-	0.5	-	-	-	-	-
Mauritius	0.2	1.3	2.0	0.4	-	1.2	-
Niger	1.2	0.2	2.2	...	...	...	...
Senegal	1.4	1.0	1.2	...	-	...	...
Swaziland	...	...	...	9.0	1.2	7.0	18.8
Togo	0.1	0.2	0.5	...	...	...	...
Tunisia	0.3	0.4	0.4	-	-	-	-
United Republic of Cameroon	-	-	0.8	6.8	8.1	4.7	7.5
Upper Volta	-	-	0.4	...	...	...	...
West Asia	2.0	4.3	0.8	4.3	5.8	5.8	1.3
Israel	2.0	4.3	0.8	4.3	5.8	5.8	1.3
South Asia and East Asia	-	7.3	4.4	43.4	13.3	54.0	62.8
Fiji	...	...	2.8	-	-	-	-
Papua New Guinea	...	...	...	2.7	1.8	8.5	1.5
Philippines	1.7	5.9	0.8	17.8	5.8	17.5	30.0
Republic of Korea	1.0	1.4	6.8	18.1	5.8	21.0	27.5

Source: Salient features and trends in foreign direct investment, N.Y., 1983
UNCTC p. 51-52

In effect, the role of FDI from developing world in the economies of developing countries is much higher than their role in world total flow of FDI. It is estimated for example that FDI from developing countries constituted during the 1970s around 15% of the total FDI stock in South-East Asia (see Table 2).

Their share was particularly high in Malaysia (roughly 40% throughout the 1970s), Sri Lanka (over 37% in 1978), Thailand and Indonesia. Of the total registered stock from other developing countries 85-100% was sourced by the countries of the same region with the sole exception of Pakistan in which case Arab Muslim countries were dominating, and Republic of Korea in which tax-haven nations were major investors. Latin American countries follow a similar pattern (see Table 2).

It is estimated that on the whole the share of FDI from developing world accounts for over 6% of the total foreign investment stock of countries concerned of which 90-100% is of intra-regional character.

Table 2: Stock of d rect investment in selected developing countries of the Western hemisphere, by country of origin

	Country of destination													
	Brazil		Chile	Colombia		Ecuador		Mexico		Panama		Peru		Venezuela
	1972	1978	1978	1971	1978	1971	1976	1972	1978	1972	1977	1974	1978	1977
	(Millions of dollars)													
Total value of stock	3 404	13 740	2 494	503	843	438	723	3 174	6 026	207	270	851	998	1 479
	(Percentage of distribution)													
Developed market economies	92.6	92.0	96.2	83.3	81.2	97.0	88.5	98.5	96.5	93.6	90.3	85.4	85.8	81.8
Developing Countries	7.3	7.9	3.6	16.1	18.8	1.5	8.8	0.2	-	-	-	14.3	13.8	9.8
Western hemisphere	7.0	6.6	3.6	16.1	16.8	1.5	9.0	0.2	-	-	-	14.1	13.5	9.4
Argentina	0.2	0.2	-	-	0.1	...	1.3	-	-	-	-	0.5	0.4	0.2
Brazil			0.6	0.1	0.3	...	0.7	-	-	-	-	0.2	0.3	-
Chile	-	-		-	-	...	1.4	-	-	-	-	0.3	0.2	-
Colombia	-	-	-			0.6	1.2	-	-	-	-	0.2	0.1	0.1
Ecuador	-	-	-	-	2.1			-	-	-	-	0.2	0.2	-
Mexico	0.1	0.1	0.1	0.3	0.5	...	0.8			-	-	0.2	0.2	-
Panama	2.9	2.7	2.3	7.2	7.5	...	2.5	-	-			8.9	8.9	-
Peru	-	-	-	0.1	0.2	...	0.2	-	-	-	-			-
Uruguay	0.3	0.3	-	0.9	0.1	-	-	-	-	-	-	0.3	0.3	0.3
Venezuela	0.1	0.1	0.2	2.0	3.1	0.8	0.9	0.2	...	-	-	0.4	0.4	
Other western hemisphere	3.4	3.2	0.4	5.5	4.9	0.1	-	-	-	-	-	2.9	2.5	4.9
Netherlands Antilles	2.3	1.8	-	-	2.6	-		-	-	-	-	0.9	0.8	-
Bahamas	0.8	0.6	-	2.7	1.2	-		-	-	-	-	0.5	0.4	1.1
Bermuda	0.3	0.5	0.4	0.1	0.5	-	-	-	-	-	-	1.3	1.2	0.8
Cayman Islands	-	0.3	-	-	-	-	-	-	-	-	-	-	-	1.2
Trinidad and Tobago	-	-	-	-	0.4	-	-	-	-	-	-	-	-	-
Other DCs	0.3	1.3	-	-	-	-	-	-	-	-	-	0.2	0.2	0.4
Hong Kong	-	0.4	-	-	-	-	-	-	-	-	-	-	-	-
Iran (Islamic Rep.of)		0.6	-	-	-	-	-	-	-	-	-	-	-	-
Lebanon	-	-	-	-	-	-	-	-	-	-	-	-	-	0.3
Liberia	0.3	0.3	-	-	-	-	-	-	-	-	-	0.2	0.2	0.1
Other	0.1	0.1	0.2	0.6	-	1.5	2.7	1.3	3.5	6.4	9.7	0.3	0.4	8.4

Source: Salient features and trends in foreign direct investment. op.cit.pp.63-64

To arrive at a proper perspective of the importance of FDI from developing countries, let us turn now to its institutional dimension. According to t findings of L.T.Wells - the leading specialist in the field - at present around 1000 of developing country companies made some overseas investment in other developing countries and operate through the network of around at least 2000 overseas subsidiaries and branches (almost all of which are in other developing countries) spread over 125 host countries. Approximately one half of them is engaged in manufacturing activity.[2)]

Table 3: Investment abroad and number of foreign subsidiaries of fifteen developing country firms

Home country of parent forms	Home government sources	Well's Data Bank	
	foreign direct investment ($ million)a)	Number of subsidiaries of all kinds	Number of manufacturing subsidiaries
Hong Kong	976[b]	325	202
India	88[c]	215	168
Argentina	38[d]	146	76
Singapore	370[e]	89	57
Philippines	276[f]	66	26
Brazil	41[e]	147	25
Korea	71[g]	155	25
Mexico	23	62	22
Peru	4[e]	37	18
Colombia	35[e]	37	18
Venezuela	64[e]	18	9
Chile	14[e]	11	7
Bolivia	3[e]	0	0
Ecuador	19[e]	2	0
Paraguay	0[e]	2	0

a) Data were not collected in the same year for all countries but between 1975 and 1978. Some figures represent only investments in countries in the same region. It is not always clear whether figures are for equity or for total investment.

b) Includes only Thailand, Indonesia, the Philippines, and the Province of Taiwan. Calculated from U.N. Centre on Transnational Corporations, Transnational Corporations in World Development (New York: United Nations, 1978), pp.246-247, and data from the Taiwan Investment Commission.

c) Data from "A New Dimension for India", Far Eastern Economic Review, May 30, 1980, pp.68. The actual investment figures are probably much higher than the $ 88 million reported to the Indian Government.

d) Data from Eduardo White, "The International Projection of Firms from Latin American Countries", in Krishna Kumar and Maxwill McLeod, eds. Multinationals from Developing Countries (Lexington, Mass.: Lexington Books, 1981).

e) Includes only Indonesia and Malaysia. Data from Far Eastern Economic Review, October 19, 1979, p.81, and the Indonesian Board of Investments.

f) Data from Yung W. Rhee and Larry E. Westphal, "A Note on Exports of Technology from the Republics of China and Korea", mimeograph (1979), p. 22. Rhee and Westphal's data came from The Naeway Business Journal June 18, 1978.

g) Only $ 14 million for manufacturing.

Source: Wells L.T. - Third World Multinationals, The MIT Press, 1983,p.10

This data need some qualification, however. They should be by no means taken as the living population of multinational production enterprises of developing countries in the sense which is meant in the present report. We do not know how many of them reflect the spirit of the real multinational production enterprises of developing countries that is to say how many of them give equal benefits to all parties involved, to what extent do they contribute to the more national use of existing and potential resources, are an adequate instrument of national development, facilitate regional programming or build up of the bargaining power of the countries involved. Their number in this sense is probably very limited and thus we should not be misled with the aforementioned figures. The figures quoted, however, point out that the potential for real multinational production enterprises to draw upon is there, as more and more developing country companies have some ETEC experience behind.

2. Industrial composition of developing country investments

Available data suggest that manufacturing has by far the largest share in intra-developing countries investments, followed by services (including finance and insurance) and trade (both whole-sale and retail). Thus one can argue that precisely here good prospects for MPEDCs in a real meaning exist.

Table 4: Distribution of developing country firms subsidiaries in other developing countries - by I.S.I.C. categories of activities

	Sector	No. of subs.	% of total
1.	Agriculture, forestry and fishing	0	0
2.	Mining	70	4.2
3.	Construction	21(1)	1.3
4.	Manufacturing	938	56.0
5.	Transportation and public utilities	50	3.0
6.	Wholesale trade	69	4.1
7.	Retail trade	9	0.5
8.	Finance, insurance and real estate	397(2)	23.7
9.	Services	117(3)	7.0
10.	Public Administration	3	0.2
11.	Nonclassifiable establishments	0	0
	Total:	1674	100.0
12.	Non available:	276	
	Grand total:	1950	

Note: (1) Together with engineering 51
(2) Banking only 341
(3) Hotels and restaurants only 60

Source: M. Svetlicic - Joint ventures among developing countries with special emphasis on the role of public enterprises, ICPE/UNCTAD, Ljubljana 1983, p.5.

Due to the deficiences in statistics, however, one has to be very cautious in making some firm conclusions. For example, whilst ICPE data bank, on which table 4 is based, does not record any foreign venture in agriculture, forestry and fishing, Sung-Hwan Jo reports on the existence of 18 South Korean equity ventures alone in the developing countries in the area of fishing.[3] Still less reliable data are available for the investment structure in the manufacturing sector. Out of 635 subsidiaries which were examined the textile industry with 146 ventures (ca. 23%) topped the list. It was followed by food processing - 122 ventures (over 19% of the sample), chemical and allied products 104 ventures (16.4%), timber and wood products - 87 ventures (13.7%) and by primary metal industries, machinery and electrical equipment, and fabricated metal products each represented by 40-63 overseas ventures (6.3 - 9.9% of the total)[4]. To make firm statements however much more research is necessary.

We should notice perhaps that there seem to be important differences in overseas investment structure in South-South and North-South relations. In North-South flows machinery and transport equipment is dominating accounting roughly for 25-30% of the total investment in manufacturing. It is followed by chemicals with the share of around 25% of the total. Food processing is next on the list (ca. 10%), followed by metal (7-9%), textiles and paper. Thus it seems that overseas ventures of developing countries are concentrated in the areas of the less intense penetration by their Northern counterparts. They are too, characterized by lower technological and apparently by lower financial requirements.

The industrial composition of intra-developing country investments appears to be highly differentiated country-wise, though available data are extremely poor.

Table 5: Industrial composition of FDI of developing countries

Investor / Sector	India			Argentina			Brazil		Colombia	
	No.	Value Rs.m	% of total	No.	Value $ mn	% of total	Value $ mn	% of total	% of total 1975	% of total 1978
Manufacturing	129	757,2	81,7	61	45,4	52,5	221	19,9	18,6	9,5
Textiles	26	235,4	25,4	-	-	-	-	-	.	.
Sugar	3	37,4	4,0	-	-	-	-	-	.	.
Palm-oil processing and food	28	102,0	11,0	.	10,4	11,9	150	13,5	.	.
Iron and steel	6	13,9	1,5	.	12,2	14,0	70	6,3	.	.
Chemicals, drugs	17	28,4	3,1	.	2,7	3,1	-	-	.	.
Paper and pulp	5	166,4	18,0	.	1,1	1,3	-	-	.	.
Engineering industry	37	156,8	16,9	.	14,9	17,1	1	0,1	.	.
Leather, rubber, plastics	3	4,0	0,4	.	1,3	1,5	-	-	.	.
Glass	4	12,9	1,4	-	-	-	-	-	.	.
Non-manufacturing	75	169,4	18,3	61	41,7	47,5	892	80,1	81,4	90,5
Hotels, restaurant	23	71,9	7,8	4	1,2	1,4	-	-	4,5 a)	2,5 a)
Consultancy	10	3,6	0,4		-	-	-	-	.	.
Engineering and construction contracting	13	36,6	4,0	20	7,0	8,0	342	30,7	0,3	-
Trading	16	6,3	0,7	22	3,0	3,2	-	-	.	.
Shipping (incl. fishing)	2	3,0	0,3	6	1,1	1,2	-	-	0,8 b)	0,5 b)
Mineral exploration (incl. petroleum)	2	22,0	2,4	4	26,0	29,9	550	49,4	.	.
Other	9	26,0	2,8	.	.	.	-	-	.	.
Total	204	926,5	100,0	122	87,1	100,0	1113	100,0	100,0	100,0

Table 5 (cont'd): Industrial composition of FDI of developing countries

Investor / Sector	South Korea			Taiwan	Chile	
	No.	Value $ mn	% of total	% of total	Value $ mn	% of total
Manufacturing	19	18,2	16,7	67,5	70,9	8,9
Textiles	.	.	.	14,6	.	
Sugar	.	.	.	-	.	
Palm-oil processing and food	.	.	.	13,0	.	
Iron and steel	.	.	.	4,3	.	
Chemicals, drugs	.	.	.	-	.	
Paper and pulp	.	.	.	3,5	.	
Engineering industry	.	.	.	8,0	.	
Leather, rubber, plastics	.	.	.	24,1	.	
Glass	.	.	.	-	.	
Non-manufacturing	224	91,0	83,3	32,5	9,2	91,1
Hotels, restaurant	.	.	.	.	0,8	7,9
Consultancy	.	.	.	.	.	.
Engineering and construction contracting	16	14,4	13,2	0,7[d]	0,04	0,4
Trading	149	21,4[c]	19,6	11,2	1,5	14,9
Shipping (incl. fishing)	23[c]	7,6[c]	7,0	.	.	.
Mineral exploration (incl. petroleum)	2	0,4	-	.	.	.
Other	34	47,2	43,2	.	.	.
Total	243	109,2	100,0	100,0	10,1	100,1

Note: a) including wholesale and retail trade
b) transport, storage and communication
c) only fishing
d) including finance and "services"

Sources: For India - S.Lall, et al - The New Multinationals, John Wiley and Sons, 1983,p.30 (data as of end August, 1980)

For Argentina - S.Lall, et al - The New Multinationals, John Wiley and Sons, 1983,p.143 (data based on government authorized FDI in 1965 - June, 1981)

For Brazil - S.Lall, et al - The New Multinationals, John Wiley and Sons, 1983, p.226 (data based on estimations of A.Villela)

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For Chile - Measures strengthening the negotiating capacity of governments in their relations with transnational corporations, UNCTC, New York, 1983, p.82 (accumulated figures for 1976 July, 1979).

India, Argentina and the Territory of Hong-Kong concentrate so far on manufacturing activity whilst Colombia, Chile, Republic of Korea and Brazil on non-manufacturing sectors. Existing differences are very large indeed and their explanation would require in-depth country case studies. There are also far-reaching differences in the distribution of overseas manufacturing investments of individual countries: thus for instance an Indian speciality is textile industry (ca 31% of the total manufacturing investment), in Argentina it is the engineering industry (over 32% of the total manufacturing investment), in Brazil it is the food processing (2/3 of the total), in Territory of Hong Kong it is the textiles (up to 50% of the total) and electronics (7-10%)[5].

Footnotes and References

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Chapter 2: Multinational ventures of developing country firms - some characteristic features

1. The phenomenon of MPEDCs

The concept of multinational production enterprises of developing countries (MPEDCs), though frequently referred to, is hardly ever defined in the existing documents and publications. The notion is vague and frequently confusing. In conventional approach transnational or multinational enterprise is defined as a company owning assets in two or more countries. Consequently then its salient feature is a polycentric organization of economic activity that is possessing some branches o' affiliates abroad. The issue of whom specifically belong the assets who controls them, how are the benefits shared and what is the relevance of campany's operation to national goals and priorities is left apart and do not enter the definition. The concept thus is on the surface completely technical one, though it has some obvious political implications as it puts in the same line transnational corporations from rich countries and their counterparts from the poor ones. The concept is fairly easy to be measured statistically since any flow of foreign direct investment and any increase in FDI stocks reflects the changing role of multinational enterprises.

Multinational production enterprises as understood in the present report represent a completely different quality. Instead of taking as a yardstick a polycentric organization of economic activity it is suggested that a polycentric control of this activity should be the distinct feature differentiating truly multinational enterprises from transnationals. Whether the assets of such an enterprise are located in one or more countries this is a secondary or technical issue.

The decisive element is whether the control of such an enterprise is in the hand of one or more countries or their nationals. This concept is much more difficult to operationalize in statistical terms as it cannot be measured directly with FDI flows, and if yes, then they should be taken only as the proxy. For the same reasons the distinction between the home and the host country is to much extent irrelevant as the home and host country could be the same though not necessarily.

Multinational ownership of assets is but a precondition for a multinational enterprise in its normative sense. To become one it has to fulfill several other criteria of which one could specifically mention:

1. equal treatment of all investors in terms of distribution of the benefits, exercise of control, access to technology and other relevant resources of the company;

2 contribution to the achievement of specified national goals and needs;

3. promotion of investors technological build up and strengthening their bargaining power vis-a-vis outside world:

4. contribution to better use of available local resources and setting up condition for the economies of scale and specialization;

5. facilitating other forms of ECDC among the countries concerned.

This summing up, the term of multinational production enterprises as used in the present report is confined to equity arrangements among two or more developing countries or their nationals to increase their industrial manufacturing output and/or encourage national resource development through a process of mutual and concerted actions for creation, expansion and/or better utilization of their production potentials as well as fostering their intra-trade flows and their bargaining position in the world market with a view to attaining reciprocal benefits from economies of scale, specialization and resources complementarities.

MPEDCs are a specific component of a much broader concept of enterprise-to-enterprise cooperation arrangements (ETEC). Its distinct feature is the equity linkage (technical aspect) and resultant therefrom,the degree of mutual interdependency and control by the parties concerned as well as aims and ways of operation (qualitative or normative aspects). Thus as we see the term multinational production enterprise of developing countries, as understood in the present report is based principally on some qualitative assessment of its features. Therefore, the fact that some developing country companies invest abroad and establish joint ventures with some other companies do not classify them immediately to MPEDCs phenomenon which should be promoted, strengthened and expanded. It goes without saying however that such ventures constitute an important element of enterprise-to-enterprise cooperation arrangement on which prospective MPEDCs can draw upon. It is of particular relevance to MPEDCs phenomenon as they represent the most advanced form of ETEC thus setting up the framework for MPEDCs.

Some of these ETEC arrangements most probably qualify for MPEDCs. Here one could specifically mention P.T. Asean Aceh Fertilizer set up in 1979, Communboum set up in 1977 by six Latin American countries, Agronimica Latinoamericana, established in 1974 by Bolivia and Argentina, Latinequip Inc. set up in 1984 by Brazil, Colombia and Mexico, Cimaa - a joint venture among Togo, Ghana and Benin or several inter-Arab multinational enterprises. However their number is apparently very limited. Be as it is, bearing in mind their potential importance for MPEDCs, it seems to be a good point of departure to elaborate on specific features of existing ventures, basing on the available impirical findings, and try to clarify what is their current nature.

2. The actors

The first important question that deserves our attention is that of the nature of the parents giving birth to such ventures. In essence there are three different ways of their deliverance.[1)]

a) intergovernmental agreements (IA)
b) overseas expansion of public sector companies (PSC)
c) overseas expansion of private enterprises (PE)

Exact figures on the importance of the each of the aforementioned actor in the propagation of multinational production ventures of developing countries (MPVDCs)are not known, nonetheless some rough estimates are available. It seems that privat terprises are so far the major actors in the area. ding to ICPE data bank on MPVDCs, out of 580 subsidiaries of MPVDCs for which relevant information has been collected, 375 (or 64%) belonged to PEs, 118 (or 20,3%) were owned by PSCs and 87 (or 15%) were owned by mixed partners.[2)] A study on Latin America reveals

that out of 39 overseas investors from Argentina 35 (or ca. 90%) were PE whereas in case of Colombia all 17 investors studied belonged to private sector.[3] Similar picture was recorded with respect to India. Out of 18 major overseas investors only 2 (ca.11%) belonged to the state sector.[4] In a recent UNIDO survey on joint ventures in the ASEAN petrochemical industry (covering both the South-South as well as the North-South ventures) it was discovered that out of 19 identified ventures 16 (over 84%) were conceived by private sector enterprises.[5] Therefore it seems safe to conclude that the private sector is responsible so far for an overwhelming majority of overseas ventures.

A characteristic feature of PEs involved in setting up MPEDCs is their predominantly purely national ownership. Out of the total 39 overseas investors from Argentina for which relevant information is available 32 of them were nationally owned firms and in Colombia out of 17 only 3 had foreign equity participation. India represents a similar example. Out of 17 cases anlysed in a recent study only 5 had minority foreign participation.[6] The same picture was observed in the case of technology exporters from developing countries where an overwhelming majority of actors was of purely national character.[10]

3. The role of the public sector

Considering the specific types of MPEDCs that we have in mind it may be assumed that public sector enterprises have a special role to play. It is only at the national level that social benefits versus private could be properly calculated and it is at this level that desirable features of MPEDCs could be worked out and maintained.

So far the role of public sector enterprises in overseas ventures is much smaller than could be expected in view of their relative position in the economies of developing countries. Their overseas investments are more important in infrastructure, raw materials and services sector and less visible in manufacturing. For example in Argentina almost half of PSC foreign ventures belong to the electricity and gas sector and to the extractive industry though their home position in a number of manufacturing industries like petrochemicals, shipbuilding, steel and metalworking is of primary importance.[8] This could indicate that their potential for foreign ventures is far bigger than actually demonstrated.

Table 2.1: Main examples of Argentinian PSC with firms of developing countries

P S C		ASSOCIATE ENTERPRISES			JOINT VENTURE					
Name	Sector	Name	Country	Ownership	Name	Year	Location	Project description	Form	Amount
GIOL	Wine Bottler	Fabrica de licores de Antioquia	Colombia	Public	PROVICA	1978	Colombia	Elaboration of wine	Equity (minority)	1,5 USm.
"	"	AZUAYA	Ecuador	Private	AVEA	1981	Ecuador	" " "	"	0,2 USm.
"	"	OESTE	Brazil	"	GIOL--CHAPECO	1980	Brazil	" " "	"	2 USm.
IME	Automotives	JAN JOSE	Uruguay	"	IME Uruguay	1975	Uruguay	Car assembly	Equity (50-50)	0,12 USm.
YPF	Oil	YPFB	Bolivia	Public	AQUILA	1974	Bolivia	Pesticides (elaboration)	Equity (minority)	4 USm.
Agua y Energia	Electricity	UTE	Uruguay	"	SALTO GRANDE	1958	Binational	Hydroelectricity	Binational enterprise	1,091 US m.
"	"	ANDE	Paraguay	"	YACYRETA	1958	"	"	"	2,500 US m.
"	"	ELETROBRAS	Brazil	"	GARABI	1980	"	"	Joint Commission	N.A.
YPF	Oil	CEPE	Ecuador	"	-	1975	Ecuador	Oil exploration, extraction	Assos. contract	-
CONEA	Atomic Energy	NUCLEN/ NUCLEBRAS	Brazil	"	-	1980	Binational	Industrial Cooperation	Cooperation agreements	3 USm.
"	"	IPEN	Peru	"	-	1980	Peru	Transfer of technology	Turnkey	80 US m.
"	"	INAN	Colombia	"	-	1980	Colombia	"	"	-

Table 2.1: (cont'd)

P S C		ASSOCIATE ENTERPRISES			JOINT VENTURE					
Name	Sector	Name	Country	Ownership	Name	Year	Location	Project description	Form	Amount
Ferrocarriles Argentinos	Railways	PERUVIAN RAILWAYS	Peru	Public	-	1980	Peru	Transfer of technology	Turn-key	-
YPF	Oil	ANCAP	Uruguay	"	-	1975	Uruguay	Technical assistance (exploration)	Contract	-
CONARSUD	Consulting	COMITE DE OBRAS PUBLICAS STA CRUZ	Bolivia	"	-	1980	Bolivia	Technical assistance(railway traffic)	"	-
CONARSUD	"	COSTA RICA RAILWAYS	Costa Rica	"	-	1980	Costa Rica	Technical assistance (cement factory)	"	-
Gas del Estado	Gas	DEVELOPING CORP. OF STA CRUZ	Bolivia	"	-	1980	Bolivia	Technical assistance (Gas processing - plant)	"	-
YPF	Oil	ANCAP	Uruguay	"	-			Technical assistance	Agreement	-
Gas del Estado	Gas	CEPE	Ecuador	"	-	1974	Both	" "	"	-
Gas del Estado	Gas	ENAP	Chile	"	-	1975	Both	Technical cooperation	"	-
ENTEL	Telephone	TELEBRAS	Brazil	"	-	1977	Both	" "	"	-
YPF	Oil	PETROBRAS	"	"	-	1964	Both	" "	"	-
YCF	Coal	ENDESA	Chile	"	-	1960	Both	Construction	"	-
ENTRE RIOS ELECTRICITY	Electricity	UTE	Uruguay	"	-	1968	Both	Energy exchange	"	-
AGUA Y ENERGIA	"	VILLAZON Develop. Committee	Bolivia	"	-	1972	Both	" "	"	-

Source: E. White - Joint ventures of public enterprises .. op.cit pp.59-60

At least four sets of factors may be quoted to explain such poor overseas propensity of PSCs.[9] First - is a traditionally inward looking - domestic orientation of many PSCs which were frequently established to resolve some problems of a domestic scope. Second - is their frequent association with the military sector which makes their overseas ventures a matter of a national security. Third - is their frequent operation under monopolistic conditions at home which makes them reluctant and unexperienced in competitive overseas environment unless they join another state monopoly abroad. Fourth - it is their pronounced risk averting attitude that makes them rather following routine paths than setting new ways.[10] In spite of all aforementioned reservations some of MPVDCs conceived by PSCs have gained significant importance.

Here one should mention first of all the case of Brazilian owned Petrobras (petroleum and related industries) having several subsidiaries.[11] Chilean based Corporacion de Aceros del Pacifico (leading steel manufacturer in Latin-America), Hindustan Machine Tools (large machine tools producer) and Balmer Lawrie from India (barrels and cans), Taiwanese Fertilizer Company from Taiwan Province and Guanomex from Mexico (fertilizers).[12]

Apart from private and public sector companies overseas investments there is yet one more way of MPVDCs creation i.e. by inter-governmental agreements. Its specific feature is the fact that the new entities are "literally born multinational", without having respective national experience as is the case with the formerly discussed investors.[13] They emerge from the political will of the founding states which consider them either in terms of a defensive measure vis-a-vis OECD based TNCs or in terms of an offensive measure to integrate some segments

of the respective national economies. Such MPVDCs have been particularly numerous in Latin America in which they were seen as the instrument of subregional and regional integration schemes. Among the most known MPVDCs of this character in Latin America one should mention Comumbana, set up in 1977 by the six member of the Union of Banana Exporting Countries (production, distribution and international trade of bananas), Itaipu set up in 1973 by Brazil and Paraguay and Yacyreta created by Argentina and Paraguay in 1973 (both for the exploitation of hydroelectric resources of the Riber Plate basin); Agroquimica Latinoamericana (manufacturing of pesticides) established in 1974 by Bolivia and Argentina; Acepar (steel plant) conceived by Brazil and Paraguay; Latinequip Inc. set up in 1984 by Brazil, Colombia and Mexico to promote capital goods industries of the said countries.[11] The most known venture of the aforementioned type in Asia is P.T.ASEAN Aceh Fertilizer (manufacturing of urea and ammonia) set up in 1979 by Indonesia (60% of the equity), Malaysia (13%), Philippine (13%), Thailand (13%) and Singapore (1%). In Africa one should mention Cimao - a joint venture among Ghana, Togo and Benin for exploiting Togog's limestone deposits. There are also several instances of such ventures among Arab countries. Council of Arab Economi Unity has put into operation so far four inter-Arab joint ventures (in mining, food production, pharmaceuticals and engineering products) and Organization for Arab Petroleum Exporting Countries (OAPEC) sponsored another 5 multinational ventures.[15]

Table 2.2: Inter-Arab Multinational Enterprises

1. Arab Joint Ventures Sponsored by Council of Arab Economic Unity

Name of JV	Date of Establishment/ Operation	Location	Capital	Subscribers
Arab Mining Company	1974/1975	Ammam	KD 120m.	Jordan/UAE/Tunisia/ Saudi Arabia/Sudan/Syria/ Somalia/Iraq/Kuwait/ (Kuwait Trade, Contracting and Foreign Investments Co.)/Libya/Egypt/ Yemen/Morocco/Democratic Yemen/Mauritania/Arab Investment Co.
Arab Company for Development of Animal Resources	1974/1975	Damascus	KD 60m.	Jordan/UAE/Saudi Arabia/ Sudan/Syria/Somalia/ Iraq/Qatar/Kuwait (Kuwait Trade, Contracting and Foreign Investments Co.)/Egypt/Yemen/ Arab Investment Company.
Arab Company for Pharmaceutical Industries and medical Appliances	1975/1976	Amman (previously Cairo)	KD 60m.	Jordan (Jordan Retirement Fund)/Jordan (Arab Company for Pharmaceuticals)/UAE/Tunisia/ Saudi Arabia/Sudan Syria/Iraq/Palestine/ Qatar/Kuwait/Libya/ Egypt/Yemen/Dem.Yemen.
Arab Company for Industrial Investments *	1978/1978	Baghdad	ID 150m.	Jordan/Tunisia/Saudi Arabia/Syria/Iraq/ Kuwait/Libya/Yemen/ Morocco.

Under formation

Arab Company for Printing

Arab Investment Co. for Land Transport

* This Company was originally established by Iraq and Egypt, before being transformed into a JV.

Table 2.2 (cont'd)

2. Arab Joint Ventures Sponsored by Organization for Arab Petroleum Exporting Countries

Name of JV	Date of Establishment/ Operation	Location	Capital	Functions
Arab Maritime Petroleum Transport Co. (AMPTC)	1972/1973	Kuwait	$ 500 m.	To find means for supporting Arab maritime companies undertaking petroleum transportation, and to develop maritime transport training.
Arab Shipbuilding and Repair Yard Co. (ASRY)	1973/1977	Manama (Bahrain)	$ 300 m.	To develop Arab ship industry and train nationals of member-states in shipbuilding, repair and maintenance. Operations started by building dry-dock in Bahrain, where a special program for training is organized. In 1981, dry-dock was operating at 89 per cent of capacity.
Arab Petroleum Investment Corporation (APICORP)	1974/1975	Dammam (Saudi Arabia)	SRIs3600m.	To contribute in financing petroleum projects and industries and related fields, ancillay or complementary to such projects and industries, with priority given to AJVs.
Arab Petroleum Services Co. (APSC)	1975/1976	Tripoli (Libya)	LD 100 m.	To set up specialized companies in various branches of petroleum services and make available Arab manpower to support its objectives
Arab Engineering Consulting Co.	1981	Abu Dhabi	$ 20 m.	To render services in engineering consulting in the oil industry.

KD = Kuwaiti Dinar ID = Iraqi Dinar

Source: E.T. Ghantus - Inter Arab Joint Ventures. Experiences and Future Prospects, ICPE/UNCTAD, Ljubljana, October, 1983, pp.27-28

4. Size and power

Another important element for understanding of MPVDCs phenomenon is their size and the market structure in which they have to operate. Here one can talk both about the size of the investors and the projects as well as about the market environment of the investors and their ventures. No systematic and comprehensive data are available, however, the evidence which is collected so far provides some indication as to the nature of the phenomenon.

It is rather an accepted hypothesis that most of the DC investors belong to the large entities in their respective home economies and that they control bulk of the foreign equity holdings. In India, for example, 10 investors account for over 62% of the total - country's foreign investments (as of June 1981).

Table 2.3: Main Indian investors abroad (as on 30 June 1981)

	Group/Firm	No. of Ventures	Indian equity (Rs.'000)	Percentage share in total equity
1.	Birla Group	18	142,760	15.1
2.	Thapar Group	9	126,908	13.4
3.	Tata Group	7	99,714	10.6
4.	JK Group	4	42,966	4.5
5.	Modi Group	2	40,874	4.3
6.	HMT*	2	37,688	4.0
7.	Usha Martin Black	2	33,900	3.6
8.	Oberoi Hotels	4	26,750	2.8
9.	Shahibag Enterprises	2	21,128	2.2
10.	Larsen and Toubro	2	18,700	2.0
11.	Godrej Group	4	13,731	1.5
12.	Kirloskar Group	8	11,794	1.2
13.	Sarabhai Chemicals	2	7,212	0.8
14.	Indian Tobacco Company	3	4,585	0.5
15.	Chemical Construction Co.	3	3,836	0.4
16.	Mahindra and Mahindra Group	2	3,350	0.4
17.	ITDC*	1	2,926	0.3
18.	Mafatlal Group	1	583	0.1
	Subtotal	76	639,405	67.7
	Others	13i	305,607	32.3
	Grand Total	207	945,012	100.0

* Government of India enterprises: HMT stands for Hindustan Machine Tools, and ITDC for India Tourism Development Corporation (which has invested in hotels abroad).

Source: S.Lall -et al-The New Multinationals .. op.cit. p.33

Table 2.4: Nationally owned industrial firms, ranked by 1978 sales (in million Argentine Pesos)

Rank	Name of firm	Ownership	Main industrial activity	Sales	Net worth	Has foreign investment experience
1.	Y.P.F.	Public	Petroleum	515,158	900,605	Yes
2.	SOMISA	Public	Steel	394,083	520,496	No
3.	Molinos Rio de la Plata	Private	Foodstuffs	257,341	63,311	Yes
4.	Sasetru	Private[a]	Foodstuffs	256,825	84,022	Yes
5.	Dálmine siderca	Private[a]	Steel	184,832	192,029	Yes
6.	Propulsora Siderúrgica	Private[a]	Steel	165,519	138,860	No
7.	Alpargatas	Private	Textiles	164,134	157,767	Yes
8.	Acindar	Private	Steel	163,467	131,117	No
9.	Sancor	Co-operative	Foodstuffs	152,772	53,318	Yes(under consideration
10.	Ledesma	Private	Sugar	117,335	91,223	No
11.	Celulosa	Private	Paper	110,834	192,418	Yes
12.	Loma Negra	Private	Cement	106,078	34,855	No
13.	Mastellone	Private	Foodstuffs	102,718	17,900	No
14.	Bridas	Private	Petroleum	101,817	75,276	Yes
15.	CAP	Public	Foodstuffs	101,756	70,757	Yes
16.	Gurmendi	Private	Steel	80,338	61,426	No
17.	Clarín	Private	Editorial	77,411	26,338	No
18.	Santa Roasa	Private	Steel	74,779	112,580	No
19.	Aluar	Private	Aluminium	70,661	143,457	No
20.	Terrabusi	Private	Foodstuffs	69,126	67,276	No
21.	Azucarera Concepción	Private	Sugar	66,801	63,796	No
22.	Afne	Public	Shipyard	66,228	41,887	No
23.	CONASA	Public	Sugar	63,505	-	No
24.	FATE	Private	Tyres	60,674	16,920	No
25.	Giol	Public	Wine	59,000	-	Yes
26.	Bagley	Private	Foodstuffs	58,884	27,176	No
27.	Alba	Private	Paints	58,163	-	Yes
28.	Cía Qufmica	Private	Chemical	55,348	22,120	Yes
29.	Pérez Companc	Private	Petroleum	54,327	38,971	Yes
30.	Grafanor	Private	Textiles	50,391	48,042	Yes
31.	Corcemar	Private	Cement	48,644	25,076	No
32.	Centenera	Private	Cans	46,688	-	Yes
33.	Grafa	Private	Textiles	45,317	22,036	Yes
34.	Peñaflor	Private[b]	Wine	45,078	-	Yes
35.	SIAM	Public[b]	Mech. Engineering	44,941	46,352	Yes
36.	Jabón Federal	Private	Soap	41,079	11,464	Yes
37.	IME	Public	Mech. Engineering	39,404	4,838	Yes
38.	Atanor	Mixed	Chemical	38,673	43,203	No
39.	La Nación	Private	Editorial	38,323	28,547	No

a) Part of its capital is of Italian origin.
b) Private firm under public intervention.
Note: There are other firms with DFI conspicuous in the sales ranking. Among them: Arcor, Minetti, Colorin, Bagó, Roque Vasally, Grafex, Galileo Industria Siderúrgica Grassi, Aguila Saint, Astra, Argentina, Angel Estrada, Quimica Estrella, Roemmers, Wobron, Plavinil, etc.

Source: S. Lall - et al - The New Multinationals .. op. cit. pp. 160-161

In Argentina out of the fourty largest manufacturing enterprises (ranked by volume of local sales) twenty had foreign investment experience (see Table 2.4).

Every fourth Argentinian firm with employment over 1000 employees was investing abroad whereas the same ratio for the companies employing 501-1000 employees was around 7,7% and for the companies with 101-500 employees 0,75%.[16)]

Roughly the same situation prevails in Brazil, however some differences between manufacturing on the one hand and other non-financial overseas investors on the other hand in terms of their size and power could be spelled out. It seems that the size factor is much more bound to manufacturing than to construction and engineering operations (see Table 2.5).

Table 2.6: Brazil - main features of non-financial firms investing abroad, 1977-80
(Net worth and sectoral ranking)

	1	Net Worth[a,b]			US$10[b]
		1977	1978	1979	1980
(1) Manufacturing					
Gradiente Amazônia (A)	9	7.0	n.a.	23.2	45.1
Caloi SA (B)	4	19.4	22.1	24.9	25.6
Cica - Cia.Ind.Cons.Alim (C)	4	42.7	n.a.	57.3	69.7
Cicasul -Ind.Cons.Alim.(D)	28	5.1	5.4	6.9	10.5
Securit SA (E)	4	6.0	8.4	9.2	8.5
Bérgamo (F)	1	10.4	n.a.	21.5	18.9
Cotia Com.Exp.(G)	7	3.7	12.3	12.8	20.8
Ifema (H)	23	9.6	12.3	12.6	n.a.
(2) Construction					
Constr. Rabello	47	38.7	26.4	29.9	19.4
Constr. Mendes Júnior	3	130.1	129.5	167.5	165.7
Constr. Norberto Odebrecht	6	85.2	78.4	114.5	103.9
Sisal	34	55.2	13.9	19.7	18.7
Esusa SA	26	28.2	32.8	37.3	30.0
(3) Engineering Consultants					
Promon Engenharia	3	18.3	26.6	24.7	14.6
Themag Engenharia	2	12.0	n.a.	n.a.	19.9
Engevix	9	7.3	8.3	9.9	7 9
Transcon	n.a.	2.1	2.1	2.9	n.a.
Iesa - Internacional de Engenharia SA	6	9.0	12.2	14.2	12.3
(4) Oil exploration					
Petrobrás	1	5113.9	6727.5	7189.1	6461.4
Braspetro	10	7.5	18.2	295.0	234.8

Notes: (1) Position in the sectoral ranking for 1980:
(A) Home appliances;
(B) Aircraft, bicycles, and other vehicles;
(C and D) Processed food, except coffee, sugar and vegetable oil;
(E and F) Furniture;
(G) Foreign trade;
(H) Electrical equipment.

a Net Worth = Capital + reserves + undistributed profits.
b All figures were converted into US$ using the average of monthly exchange rates.

Source: S.Lall - et al - The New Multinationals .. op.cit.p.245

It should be noted, however, that there are some cases of MPVDCs which overseas investment were quite large. Available figures from ICPE data bank point out that out of 312 subsidiaries for which relevant information on invested capital was supplied 23 of them had an investment level of over $ 20 million of which in 6 cases invested capital exceeded $ 100 million.

5. Technology

Technology belongs evidently to the core resources of any industrial company and multinational enterprises in particular. Technology acquisition and technological transformation is seen as one of the principal factor determining the long run position of developing countries in the global economic setting. It is necessary therefore to discuss the problem in more details as proper understanding of technological dimension of MPVDCs provides a framework for subsequent analysis of their potentials, opportunities and perspectives in terms of MPEDCs. It seems that particularly important questions that ought to be answered in this respect may be formulated as follows: What are the sources of technology used by parent companies and subsequently implanted to their subsidiaries? What are the relative characteristics of this technology? And finally - What is the degree of MPVDCs integration with local technological infrastructure? Let us take these questions one by one.

It is not surprising to find out that apparently in the majority of cases most of the subsequent overseas investors have gained their initial technological inputs from abroad, predominantly from developed world. On the other hand, however, good part of this alien technology has been considerably indigenised by the time of an overseas expansion of individual firms. Indian data, based on 52 case studies

seem to be most illustrative in this respect. This indigenisation is by far and large confined to various aspects of adaptation to local cultural, technical and economic conditions, phasing out some of the imported inputs and the like. In short, the changes that are introduced fill the gap between the subsequent breakthroughs generated by world technology leaders and impart local "taste" on imported technologies. In individual cases, however, original local innovations of a universal nature are generated.

Table 2.6: Sources of technology of Indian parent firms and their foreign manufacturing subsidiaries (1977)

Sector	Source of parents' original technology			Source of foreign subsidiaries' technology			Source of parents' 1977 technology	
	India	Foreign collaboration	Imports of foreign machinery	India	Japan	Other foreign countries	At least 50 percent indigenous	Mostly imported
Paper and cardboard	1	2	2	7			5	
Chemicals, soaps, and drugs	2	1	3	8		1	4	2
Edible oils	1	2	1	9			4	
Automobile ancillary	1	5	3	7	1	1	8	1
Foods, beverages, and confectionery	1	3	1	5		3	3	2
Construction			3	3			3	
Miscellaneous light ancillary	1	5	3	12		1	9	
Heavy industry			3	4			3	
Textiles	3	2	3	4	1	3	8	
TOTAL	10	20	22	59	2	9	47	5

Source: Wells L.T. - Third World Multinationals .. op.cit.p.21.

It is not surprising in view of the fact that, as a rule, companies venturing abroad belong to local technological leaders.[17] Technologies which are subsequently handed over to foreign subsidiaries are in most cases, though not exclusively, derived from parent companies. A good indicator of the degree of their "nationalization" is provided by an analysis of the import sources of industrial equipment used in foreign subsidiaries. In a recent study of 151 subsidiaries of MPVDCs it was discovered that in over 80% of the cases required equipment and machinery was supplied from the respective home countries. Particularly active in this respect are Indian investors which is justified both by the level of local capital goods industry as well as specific government policy. MPVDCs from other developing countries were found to bring around a quarter of their machinery from the home countries, which is a pretty good result in view of the level of development of a capital goods capacity in developing countries.[18] The technology transferred to subsidiaries is frequently additionally modified to better suit local environment.

It is perhaps interesting to note here that apparently this factor is not as important for TNCs as for MPVDCs. In a series of studies conceived by ILO and concentrated on TNCs, it was concluded that technology choices in TNCs subsidiaries were not determined by the level of local wages and that low wages and employment considerations were not an incentive for the adoption of the relevant technologies.[19]

Available empirical evidence suggest that on the whole TNCs are rather reluctant to make any significant modifications in their technologies for the use in the subsidiaries

located in developing countries. This refers in the first instance to process technology"... as a general rule the production techniques used in subsidiaries are entirely comparable to those which would be used in the country of origin, independently of the level of development of the country in which the subsidiary is established. There is therefore a tendency to uniformise production techniques in each branch of industry independently of the socio-economic and cultural characteristics of the host countries".[20)]

In case of product technologies some adaptation takes place mostly to suit the characteristics of the local demand, though the changes made are usually marginal.[21)]

One of the most important questions with regard to the technological dimension of MPVDCs is the nature of their technology which is transferred and used abroad.

The first relevant issue is that of the level of technology in terms of industry-wise structure. A standard criterion to classify the technological intensity of various industrial branches is the level of their R + D expenditures as percentage of their sales. It has numerous weaknesses, however, nothing better has been invented so far.[22)] In an impressive survey of 932 subsidiaries of MPEDCs by L.T. Wells it was demonstrated that 57,6% of them were operating in low technology intensive industries as compared to 35,6% of the total number of TNCs subsidiaries.

Table 2.7: Manufacturing subsidiaries in all locations, by R + D expenditures and nationality of investors

Industries' (three-digit SIC) expenditure on R and D as percentage of sales'	Subsidiaries from developing countries[b]		Subsidiaries from United States[c]		Subsidiaries from other industrialized countries[c]	
	Number	%	Number	%	Number	%
Low (less than 1%)	537	57.6	2,540	30.2	2,189	35.6
Medium (from 1% but less than 2,5%)	148	15.9	1,286	15.3	795	12.9
High (2.5% or more)	247	26.5	4,573	54.5	3,166	51.5

a. U.S. data.
b. Data bank of this study.
c. Data bank of Harvard Multinational Enterprise, U.S. data to 1975, and data from other industrialized countries to 1971.

Source: Wells L.T. - Third World Multinationals ..., op.cit., p47.

Similar picture emerges from other available findings on Brazil, Indonesia, Province of Taiwan, Philippines and Mauritius.[23] Thus it seems that most often MPVDCs fill the gap left aside by TNCs. Of course the reality is more complex than could be expected which is indicated by the fact that at the same time more than one fourth of MPVDCs operate in high technology intensive branches. They could not be therefore considered exclusively as the parias of worldwide technological change. Different technological level of MPVDCs is reflected inter-alia in different labor intensity versus capital intensity of their technologies. Of course it is not the only factor which determines the level of labor intensity as at least equal emphasis could be given to special modifications introduced into foreign technologies by MPVDCs, irrespective of their industrial distribution. Independently of the underlying causes it is rather well proved that MPVDCs technologies are characterised by lower capital-labor ratios than those in use of TNCs. In Indonesia - for example - subsidiaries of MPVDCs use on average $ 8.500 of capital per worker in comparison to $ 16,300 in case of TNCs subsidiaries. The same holds true also for intra-industrial comparisons.[24] In another study based on a sample of 153 overseas investors in the ASEAN region it was established that the MPVDCs capital intensity was equal to around 80% of that registered by TNCs subsidiaries in the region.[25] Similar observation is contained in a recent ILO report, summarizing the results of an extensive field survey on the technology choice and employment generation by multinational enterprises in developing countries. It concludes that "Third Word MNEs are generally much more labor-intensive than industrialized country MNEs; this is largely the result of their smaller size and of their concentration in the traditional industrial sectors"[26]

Another key characteristics of the MPVDCs technologies is related to the scale variable. It seems that by far and large MPVDCs tend to transfer technology which is particularly suited to manufacture at small volumes.[27] The first evidence may be found out in the average size of MPVDCs subsidiaries as compared to those of the TNCs which was already discussed and which indicated that, on the whole, they are half of the size of the TNCs ventures.

Another evidence is that of the scale of the output delivered by the respective ventures. Data for Thailand indicate that an average plant owned by TNCs was twice as large as compared to the plant owned by MPVDCs. In a study of textile plants in Nigeria it was detected that firms belonging to MPVDCs were as a rule smaller than their industrialized counterparts.[28] Similar pattern was noted in Indonesia.

Small-scale attribute of MPVDCs technologies are arrived at and accompanied by their relative flexibility in a sense of wide range of products or product models manufactured with the same equipment. As D.J. Lecraw points out "... instead of dedicating piece of equipment or production line to the high speed, continuous production of a single product, production equipment and processes were modified or designed so that several products could be produced using the same equipment with low downtime and changeover costs. In other instances, both production processes and products were modified so that the same product could be produced by different processes and equipment."[29]

Coming to the end of our brief account of the nature of MPVDCs technologies it should be also pointed out that apparently these companies are more eager to adapt their

technologies to locally available inputs than their industrialized counterparts. Such a behaviour of these firms is largely attributed to their past home experience in which they are frequently forced to make relevant modifications in the technologies purchased elsewhere. In effect they acquire special skills and understanding for such type of innovative activities.[30] It is interesting to note that similar pattern was observed with regard to hard-currency hungry East European producers.[31] The last element of the technology-related characteristics of MPVDCs which deserves our special attention refers to the degree of their technological integration with local technological infrastructure which determines the scope of subsequent technological diffusion and provides the base for local technological learning. As it is well proved, TNCs are on the whole rather reluctant and unwilling to integrate with local technological infrastructure. This refers both to their use of local R + D capacity, development of TNCs own R + D activity as well as their use of local domestic supplies.[32]

This policy is both accompanied and simultaneously reinforced by comparatively low mobility of qualified workers and particularly of the management, as well as TNCs avoidance in employing nationals of the host countries in top management position.[33] On the whole, therefore, it seems that standard TNCs subsidiaries remain pretty isolated from the local technological infrastructure, their contribution to local learning confined largely to demonstration effect and consumer education as well as vocational training which is however not of much use for local enterpreneurs.

What is then the behaviour of MPVDCs in this respect? Do they really differ from the pattern set up by TNCs?

There are not comprehensive information available which could provide us with a clear answer. However, the pieces which are available do suggest some differences that on the whole indicate greater degree of MPVDCs integration with local technological base. It is most spectacular in the use of local equipment and local subcontracting. As evidenced by data from Thailand MPVDCs have used more than twice as much local equipment as compared to Western owned TNCs. This finding receives a strong support from the existing theoretical frame work which indicates that in largely integrated TNCs structures their decisions with regard to the sources of subcontracting are heavily influenced by their overall attempt to rationalize their global operations which frequently means favouring of "in-house" suppliers.

MPVDCs which - on average - do not dispose of such integrated structure are therefore much more proned to reply on local technological base. Whether MPVDCs behaviour differs also in respect of other identified areas it is hard to say in view of the scarcity of data and their different technological quality. For example it is difficult to use R + D deployment indicator as in many cases there is no formalized R + D activity within the parent companies themselves. More research is therefore needed to clarify the picture in full dimensions.

6. Market orientation

A characteristic feature of MPVDCs is their local market orientation in terms of the marketing strategy pursued. Overseas ventures of the private enterprises are seen as a means of a host country penetration. For example in a study of 16 Indian manufacturing investors it has been discovered that 11 of them responded to import substitution pressures from the respective home countries.[34)]

This local or regional orientation of MPVDCs is additionally evidenced by the data on geographical distribution of foreign ventures which points out to their clear intra-regional concentration.

The situation observed is again quite similar to the one which was noted with respect to the destinations of technology exports from developing countries where neighbouring countries were normally major export outlets. This characteristic is even more pronounced in case of the public sector MPVDCs or the firms conceived through intergovernmental agreements. Bulk of these entities were clearly aimed at serving host and/or home market needs. Thus on the whole we may conclude that by and large MPVDCs are locally/regionally oriented and by no means they represent an example of global worldwide marketing approach. Obviously enough, in individual cases, this contention may be questioned. Evidence abound when developing country investors were moving abroad to secure their export markets in industrialized countries (due to quotas system widely in use) or investing in export processing zones with the view of subsequent export to all over the world.

The local market orientation of MPVDCs seems to have its roots mainly in their small size and hence their inability to stretch widely their foreign operations as well as their relatively young experience as multinationals. As soon as these factors are removed the picture may well change as it is perfectly illustrated by an example of Braspetro - a part of the Brazilian Petrobras System, whose investment stock abroad was estimated in 1979 at $ 310 million and whose operations were clearly of a worldwide nature.[35)]

7. Legal and organizational characteristics

A peculiar feature of MPVDCs is their frequent involvement of local partners in their foreign subsidiaries. In a study by Wells L.T. of the 602 manufacturing subsidiaries for which relevart information was available it was discovered that only 57 of chem (9.5%) were wholly owned affiliates.[36] This picture is more highlighted by figures collected for the ICPE data bank. Out of 1260 subsidiaries surveyed 777 (or ca.62%) were in the form of minority equity shares, 74 (ca.6%) were majority owned and 409 (ca.32.5%) were hundred percent owned. This local equity content seems to be much higher than in case of industrialized countries TNCs which are claimed to rely most often on majority or wholly owned subsidiaries.

This contention should be, however, taken with caution in view of new empirical findings, at least at an industrial level. In a recent UNIDO survey on joint ventures in the ASEAN petrochemical industry, based on 19 observations (of which only 1 was exclusively South-South venture) 12 ventures had majority local participation (over 63%) and only 5 (26.3%) had majority foreign ownership.[37]

There are no particular differences in this respect among investors coming from individual developing countries. Thus in a survey of Indian firms it was noted that only around 20% of all their overseas projects implemented up to 1980 had local minority equity shares and in 66% of the cases the local share was ranging from 50% - 80%. The weighted average of the Indian equity share accounted for around 30% of the total.[38] In case of Korea, if only manufacturing sector is included, less than 10% of their overseas ventures are wholly owned by the Koreans.

Joint ventures with foreign partners are also a favourite way of overseas expansion in Latin America. In the case of Mexico, MPVDCs from Latin America control only 36% of the capital of their foreign ventures; the average for all foreign investment accounting for about 52%. In Ecuador in 1974-75 Latin American investment had in 42.5% of cases some local equity participation. The same ratio for other investors was 37%.[39)]

Joint venture characteristic of MPVDCs may be basically explained by the relative weakness of the prospective investors who are seeking local partnership to reinforce their market position by pooling their respective resources together. Additionally in some home countries (for example in India and Korea) joint ventures are officially recommended way of capital expansion abroad. Apart from the equity investments there is a variety of other non-equity or contractual forms of foreign investments which escape the relevant statistics as they are not manifested in any institutionalized form. Here one should mention such conventional forms as licensing agreements, technical assistance agreements, management contracts, joint projects execution and the like. Here one should also mention such relatively new forms of South-South investments as complementation agreements (based either on vertical or horizontal specialization) which have been already for a long time in use in intra CMEA relations and thereafter in East-West business contracts.[40)]

A relatively new interesting form of MPVDCs are trilateral equity or non-equity arrangements (so called cooperative model) which comprises both the participant from the developing countries as well as the representatives of industrialized countries.[41)] Last but not least

we should also mention tripartite industrial cooperation agreements which involve both the representatives of the developing, developed and the socialist countries, each of them bringing to the stake his own special resources to arrive at a synergic effect of the joint venture.[42)]

8. Concluding remarks

Preceding analysis pointed out that MPVDCs constitute highly complex and diversified phenomenon. It starts with the partners involved, goes through the ways they are conceived, their size, possessed technology, degree of their integration with local economies, market orientation and finally their legal and organizational modes. More simplistic visions of MPVDCs offered in the past, which undoubtedly reflected a poor empirical base, are giving way to a new picture which indicates that we are faced with a broad variety of, some times highly differentiated, mutations. Now, the principal question is the directions of possible evolution of this rather new phenomenon. Are the observed characteristics variable or permanent? Which of them reflect the young age of MPVDCs and thus are a sort of short-term features and which of them will remain as their structural properties. As we could see, many of the hypothesis and conclusions are based on rather limited observations which may in principle biase the picture significantly. Therefore much more systematic research efforts and monitoring of current developments is required. What we lack particularly is the perception of the host countries, analysis of the generation of MPVDCs projects, information with regard to their performance, specific legal and organizational solutions, major problems encountered and the like. Only with these in hand one can dare to formulate some firm conclusions.

The foregoing analysis points also out that there apparently exist both a good potential as well as a growing need to set up and strengthen of MPEDCs which will overcome the shortcomings and gaps of MPVDCs and other forms of enterprise to enterprise cooperation and provide more rational and unbiased framework for South-South relations.

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Chapter 3: Internationalization of production process of developing countries, motivations, determinants, barriers and implications

1. Some conceptual considerations

Economic theorists continue to search for the best theoretical framework explaining the level and composition of foreign direct investment both at the firm, industry and country levels. The most comprehensive theoretical construction, apparently having the best explanatory power so far, is that of the eclectic theory of international production by J.H. Dunning.[1] Its main assertions might be summarized as follows.[2]

1. The propensity to invest abroad is determined by a set of three interrelated factors: ownership specific advantages, internationalization incentive advantages and location specific advantages;

   - ownership specific advantages include all assets/or right to assets/which the prospective investors possess in a higher degree than its foreign competitors. They may comprise such elements as technology, managerial ability, access to special resources, markets and the like.
   - internationalization incentive advantages include all elements which direct the companies towards internationalization of the use of the ownership specific advantages. They may comprise such elements as avoidance of the costs of property right enforcement, the costs of negotiation and transactions, the need for control of the market outlets, etc.
   - location specific advantages on the other hand include all variables that determine

the enterprise decisions with regard to the deployment of some of the production abroad.

2. On the other hand the said propensity will depend on: country, industry and enterprise specific factors.[3)]

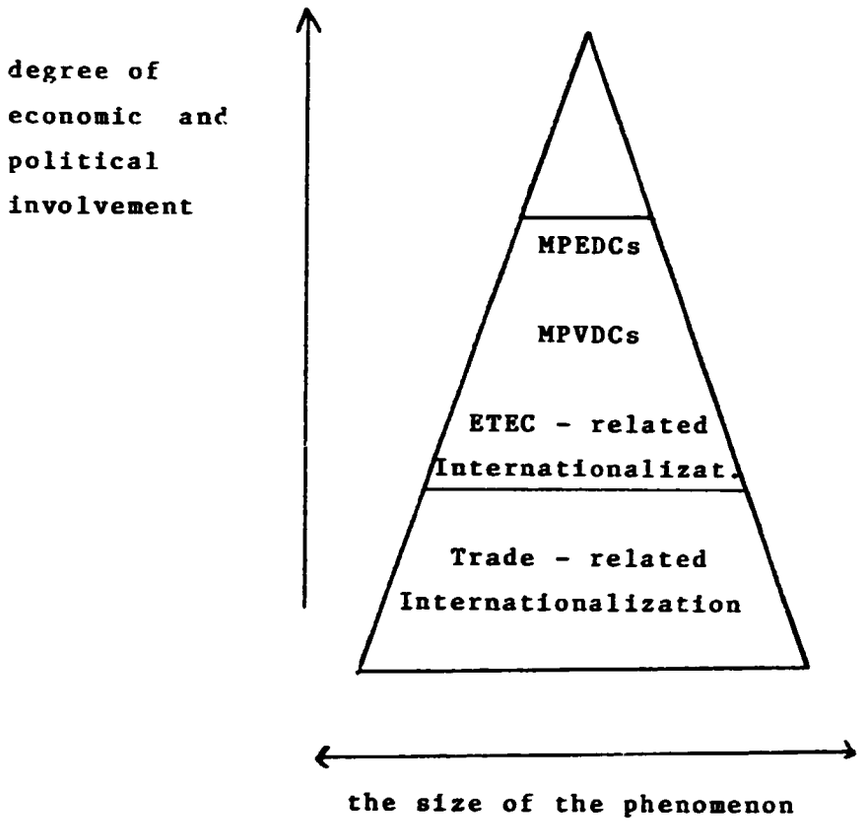
3. Countries differ in their foreign direct investment propensity due to their different resource endowments, market characteristics, government policies and so on, all of which will find their reflection in ownership, internationalization and location specific advantages.

4. The relative level of foreign direct investment is dependent on the country's stage of economic development.

As we can see from the aforementioned, the theory is structured in such a way that it provides the room for any relevant variable and at the same time it does not assign any specific weight for individual factors or their groups. Thus it may constitute a useful framework to structure our subsequent analysis.

Internationalization of production processes is a dynamic and highly complex phenomenon, of which MPEDCs, as understood in the present report, are the most tiny, though highly desirable element. Internationalization of production processes starts with the simple exchange of goods and services and is reflected in trade data.

This is by far and large the most spread form of internationalization and at the same time the least binding one for the partners involved (see Fig.1).



Thereafter ETEC related internationalization takes place of which the most binding one is MPVEDs form, which constitutes a point of departure for MPEDCs phenomenon. As we could see MPEDCs are characterized by the highest degree of economic and political involvement and they rest upon the basis created by preceding ETEC arrangements. Hence to understand better the requirements and preconditions for MPEDCs, an analysis of forces and barriers relevant to the internationalization of production processes by means of pooling directly the resources of various economic agents seems to be necessary.

2. Motivations for foreign direct investment

Available data suggest that by far and large the most powerful motivation for overseas investment among developing countries was the desire to protect the export markets, which would mean the domination of location specific advantages in the language of the eclectic theory of international production. This contention is well supported at the macrolevel in which high degree of correlation between the foreign investment and export performance appears to take place. In a recent study of fifteen developing countries it was discovered that there exists a strong correlation between their ranking in manufactured export performance and their ranking in total stock of overseas direct investment.

Table 3.1: Ranking of fifteen developing countries, by export of manufactured goods and foreign direct investment

Country	Rank by 1963 export of manufactured goods to other LDCs	Rank by direct foreign investment in 1977
Singapore	1	2
India	2	4
Mexico	4	10
Argentina	5	8
Philippines	6	3
Brazil	7	7
Korea	8	5
Chile	9	12
Venezuela	10	6
Colombia	11	9
Peru	12	13
Ecuador	13	11
Bolivia	14	14
Paraguay	15	15

Source: Wells L.T. - Extracts of .. Third World Multinationals .. op.cit.p.72

Table 3.1 provides necessary statistical evidence. One should note perhaps that export figures refer to 1963 to allow for a time lag.

The relevant Spearman rank coefficient, calculated on the base of table 3.1 is rather high and accounts for 0.80. This macro-observation is supported by many micro findings. Thus for example in a field survey of 52 Indian investors, protection of export markets was quoted by 73% of them and clearly outpaced other motives.[4)]

This need for protection arises either from the emerging competition/local or foreign/or introduction of an import substituting regime.[5)] In another Indian study based on 16 cases it was established that in 11 of them, the overseas investment were in response to the latter element.[6)]

Preservation of export markets appears also to belong to the principal FDI motivations in Latin American countries and their FDI are closely related to their former export penetration. According to INTAL studies, out of 26 Latin American enterprises that set up foreign affiliates, 22 of them were previously exporting the products that were later manufactured by the joint venture.[7)] At the same time ".. much of the direct investment from Argentina, Colombia and other relatively advanced countries of the region, appears to be a reaction to the import-substitution barriers gradually imposed by the smaller countries".[8)]

This assertion is further supported by findings on motives for foreign investments in Thailand, Philippines and Mauritius.[9)]

Historically, a powerful factor which animated much of the South-South direct investment flows has been a widely spread system of country export quotas, applied by several developed countries. Once the quotas of individual countries were filled their export-oriented companies were moving abroad to such locations which could offer non-utilized national quotas. Thus, incidentally, trade restrictions imposed by developed countries have contributed objectively to the spread of MPVDCs. A particularly illustrative example is the history of the cotton textile export from Hong Kong Territory, which adversely affected by the quota system in the U.K. and the US embarked on production redeployment to Singapore and subsequently to Macao, Malaysia and Thailand.[10)]

Obviously, the said motive is not confined exclusively to the textile industry but to all export-oriented industries of developing countries that become the victims of the quotas or other non-tariff measures.

A second set of motivations, which is undoubtedly closely related to the one discussed above, is the <u>domestic demand deficiency</u>. This deficiency may be manifested at least in three different ways.[11)] First, it may be the small size of the local market which precludes any reasonable scale of the firm's operations. This is particularly true with regard to these industries which, for technological reasons, require substantial scale of activity, the heavy industries being a good example. Of course, such a limitation may be circumvented by simple exportation and it is frequently the case. However, some companies may find it more feasible and

secure to expand their production operations abroad. Another element of the domestic demand deficiency may be related to its high degree of vulnerability both in long-term as well as in short-time perspectives. Domestic recessions therefore may be responsible for much of the joint ventures abroad. Precisely this factor has induced first Indian overseas ventures in the 1960s.[12)]

Apart from the domestic demand deficiency, it may be also a restrictive home environment that gives an additional impetus to internationalize. This element, according to Lall, seems to have a specially strong influence on India motivations for foreign direct investments.[13)]

Risk diversification is but another motivation closely related to the domestic market deficiency. It may be additionally reinforced by uncertain government policies arising from changes of the political regimes. This element appears particularly important in the context of Latin American countries. A recent UN CTC study puts it the following way .. "The internationalization of Latin American firms cannot, however, be adequately explained without taking into account the impact of changing political circumstances and public policies. In a developing region like Latin America, where political conflicts and changing public policies are so common, and where interventionist policies are succeeded by conservative regimes and vice versa, a good part of the basic motivation for local firms to invest abroad is related to their desire to spread risks by means of geographical diversifications.[14)]

A second large group of motivations for overseas ventures is connected with the factor prices and factor supply, though their relative importance seems to be smaller than the ones discussed above. It is most often related to the availability and costs of the labour force as well as the availability and costs of raw materials.

Table 3.2: Motivations of parents from other developing countries for foreign investment in Mauritius and the Philippines for manufacturing subsidiaries serving export markets

Motivations	Weighted rating[a]
Low-cost labor	43
Avoid quotas	36
Government incentives	17
Encouragement by customers	15
Access to third country markets	12
Careers for family members	11
Use products made by affiliates	10
Exploit experience with labor-intensive technology	9
Minimize political risk	8
Quality of labor	5
Limited home market growth	0
Protect host country market threatened by tariffs	0
Export machinery	0
Exploit knowledge of host market	0
Access to raw materials	0
Pressure to earn foreign exchange	0

Source: Vinod Busjeet, "Foreign Investors from Less-Developed Countries", unpublished doctoral dissertation. Harvard Business School, 1980, Data from interviews.

a Reasons ranked first received 4 points; second, 3 points; fourth or less, 1 point.
Quoted in: Wells L.T. - Third World Multinations .. op.cit.p.77

On the other hand, these motives seem to be largely absent among Indian and Latin American investors.

It seems that the factor price-supply considerations is of primary importance for export-oriented investments and disappear in case of host country market aimed ventures. At the same time they seem to be more important in regions with high diversification of labour costs and factor endowment.

The motivations discussed so far clearly belong to the location specific advantages, to use the expression of the eclectic theory of international production.

Government policies with respect to foreign direct investment in host countries is an example of another location specific advantage which appears to rank high among the corporate motives for investing abroad. It was found on the third place among motivations for foreign investments quoted by Indian firms and was c..pying second place in the list of motivations for foreign investments in Mauritius and Philippines. Sometimes it is the question of general incentives offered for foreign investors, sometimes however it is the direct host country government invitation issued to specific developing country firm. Apart from the host country policies it is the home country attitude that frequently matters. In this respect important changes could be observed in the 1970s among developing countries, that became aware of some positive implications arising from the overseas investment expansion of their national companies. In effect, a few of them introduced some investment related incentives. In Latin America, Colombia was the first country pursuing a selective policy of foreign investment promotion since 1968. It was followed by Argentina 1976 and Brazil 1978.[15)]

This summing up one may conclude that protection of the export markets, domestic demand deficiency and government policies appear to play a major role among FDI motivations. They belong predominantly to the location specific advantages. The role of ownership specific advantages among the motivating factors seems to be of a secondary importance.

Only in case of Indian joint ventures they play apparently a more significant role, which is generally attributed to relatively high-level of country's technological development. Among the ownership specific advantages one should point out first of all to the role of the ethnic ties which were particularly important for Hong Kong Territory and Indian ventures due to the existence of large overseas Chinese and Indian communities.

It was accompanied by such elements as experience with labour-intensive technologies, knowledge of host country markets and, rather seldom by the possession of some proprietary know-how.

It is worth noting that apparently the motivations outlined are commonly shared both by private as well as by public sector companies. Different set of motives are present in case of intergovernmental agreements based MPVDCs. As indicated in a study on Argentinian experience, there are two principal considerations that lead to such ventures.[16)]

1. Promotion of projects of high national priority where financial, technical or political implications are beyond the scope of the single country;

2. Forging of political ties and economic relations with other countries.

3. Determinants of host country choice

The determinants of host country choice are hardly touched in the relevant research so we have to rely principally on some speculations based on our earlier discussion. It seems justified to claim that the choice of the host country will be affected mainly by the motivations for direct foreign investments that were previously analysed.

As the export market motive appeared to dominate among the factors leading to overseas capital ventures in many developing countries, we may expect that to large degree distribution of such ventures will reflect on the geographic pattern of export links between the home countries and the host countries. This assertion receives some support from data on the relationship between manufactured export performance and number of foreign investors. Asian countries, leading in manufactured export to developing countries, account for the largest number of foreign investors, 666 manufacturing projects in Well's data bank. Far behind them were Latin American investors, 157 manufacturing projects, which were also lagging in manufactured export performance.

The same regularity was noted with respect to Middle East ventures, 68 manufacturing projects, and Black Africa, 22 projects.[17] The registered picture will be certainly adjusted by the host country trade and foreign investment policies. The more liberal trade regimes and the more stringent foreign investment regulations, the less likely foreign capital inflow. And vice versa, the more import-substituting trade policy and more incentives offered to foreign investors, the more chances for overseas venture to take place.

It should be however kept in mind that by far and large exports will generate FDI only to such countries where the exporters' comparative advantages can be transferred. In effect, developing country investments have been largely destined to other countries in the region.

Another determinant which seems to be relatively well justified is that of the factor price-supply element with a particular emphasis on the factor price variable. As a result, most subsidiaries of firms from developing countries are located down the level of economic development of that of the parent countries.

Finally, one should stress the role of the ethnic ties and related cultural affinity which has been also underlined by studies on technology exports from developing countries.[18)]

4. Revealed comparative advantages

In their production expansion overseas developing country firms are faced with the possible competition of two other actors-host country producers and multinationals from developed countries. The question arises how can they stand this competition from both sides and survive. Again, most of the pertinent findings are based purely on speculations.

It seems that on the whole, major area of comparative advantages over local firms is the overall industrial experience and higher marketing skills, supplemented by better connections with the export markets. All of the said factors result mainly from the investor's earlier industrialization and export experience.[19)]

Somewhat different results are reported for Korean investors in manufacturing sector. It is claimed that their main advantage over both local and multinational competitors is derived from "firm-specific adaptation of foreign technology and/or standardized process to a relatively small scale of operations, and some adaptations of product design to the LDCs' conditions".[20] A study on Argentinian public sector foreign investment praises both the role of an earlier industrial experience as well as adaptation of imported technologies to the specific conditions of developing countries.[21]

Now let us turn to the question of MPVDCs advantages over other multinationals, i.e. from developed countries.

Table 3.3: Advantages of Hong Kong Territory subsidiaries over other foreign firms in host countries

Advantages	Score
Better understanding of the conditions in the less developed countries	6.8
Lower costs for managerial and technical staff	5.3
Greater flexibility and adaptability	5.2
Closer language and cultural affinity	4.9
More appropriate technology for the local conditions in the host countries	4.8
Better connections with export markets	2.5
Longer experience in production and operation	2.2
Better local connections in the host countries	2.0
Government policies in the host countries prefer overseas firms from developing countries to those from developed countries	0.6

Source: S. Lall, et al - The New Multinationals ... op.cit. p.117

As the Hong Kong study reveals, apparently the most important advantages over foreign competitors are of non-economic, apart from management costs, and non-technological nature. They are by far and large related to some behavioural and social characteristics of the enterpreneurs from developing countries: their better adaptation to local environment, flexibility, experience of working in disorganized milieu as well as their language and cultural affinity with respect to the host country.

Different results are reported in case of two leading Latin American countries: Argentina and Brazil. Empirical surveys point out that their competitive adge rests mainly in their technological performance: scaled down available technologies, intensive use of local inputs, some necessary retodling or redesign. It is claimed that Brazil has a comparative advantage in selling "tropicalized" technologies, technologies adapted to the conditions of backward regions of the world with similar physical characteristics to these in Brazil.[22)]

Thus, it seems justified to conclude that the nature of the comparative advantages which are demonstrated by MPVDCs are on the whole quite different from the ones enjoyed by industrialized country multinationals. They are not based on the possession of some new technologies, product differentiation, integrated international production-management systems, easy access to capital markets, etc. but rather on their specific "style" of the otherwise known technologies, descaled, simplified, etc. On average, these advantages are not of a significant nature, both with regard to local as well as foreign competitors, and hence they must be supplemented by other missing elements through the inclusion of local partners or special preferential

treatment awarded by national policy makers. This also explains the reasons for which MPVDCs are still not a massive phenomenon and their failure ratio is significant.[23]

5. Barriers to internationalization

The spread of MPVDCs and MPEDCs alike is faced by numerous man-made and natural barriers both at home and abroad. Probably the most obvious is the relatively low level of economic development and short industrialization experience of the developing countries, which may be considered as a sort of a natural impediment to the internationalization of production in these countries. As it was pointed out earlier, the stage of economic development per se seems to be an important factor which determines the relative size of investment outflow as well as the inflow. At the same time it is fairly well established that the commencement of foreign production activity by national companies is normally preceded by their domestic production experience, followed by non-equity foreign investment stage, licensing, franchising, coproduction, etc.[24] This however, is largely an industrialization experience related variable.

Apart from this natural-structural element there are several other limitations which may be roughly classified into four broad categories legal, economic, political and sociological.[25] Let us take them one by one.

The legal barriers to internationalization are created both at home and host countries and they are largely to be found in foreign investment regulations. A frequently unfavourable legal bias at home has its roots in balance of payments considerations and the desire to protect scarce hard currency resources.

Latin America and India are particularly illustrative examples of such policies, which only since relatively recently have been somewhat modified to allow for more easy utilization of overseas venture route for the national companies.[26] Still however the existing regulations are in many home countries quite restrictive. Indian law for example requires that the equity contribution of Indian investors to be rather in kind than in cash and furthermore, that the machinery and the equipment supplied to joint ventures should be of Indian origin. Additionally, up to 1978 the investors were allowed in principle to hold only the minority shares.[27] There are only a few developing countries, such as Korea, that provide some incentives for overseas investors. Legal barriers existing in host countries are apparently even more spread and hard for the prospective investors from developing countries.

Historically they were erected against the abuse of the power by multinationals from developed countries. Nowadays ironically they turn against MPVDCs which can hardly compete on equal footing with the former. Take for example the case of long bureaucratic procedures which are characteristic for investment authorization. It may be better endured by large and rich multinationals than rather small and poor MPECDs. Only a few developing countries have sought specifically investors from other developing countries and apparently only Egyptian law provides a preferential treatment for Arab investors.[28]

As far as economic barriers are concerned they are largely related to the poor trade infrastructure among the developing countries and resulting poor information on market characteristics and existing or emerging market possibilities.[29]

They are further aggrevated by the lack of sufficient financial resources in case of large-scale projects, and by a possible presence of an earlier established affiliates of multinationals from developed world.

Political barriers to the spread of MPVDCs and MPEDCs alike are also a frequent reality. They may stem either from specific geopolitical considerations of some countries or from a domination of some political lobbying groups in these countries.[30)]

With regard to the first element it may be both the result of current political alliances and animosities, so frequent among developing countries, or some deep rooted fears of possible political domination excercised through economic domination. The victims in the latter case are as a rule regional superpowers like India in Asia or Brazil in Latin America. With regard to the lobbying groups impact a good illustration is provided by a reluctant or negative attitude of some Latin American military groups for internationalization of national companies on the ground of national security argument. It may be also a question of strong links of some political groups with developed country multinationals.[31)]

The sociological barrier on the other hand, finds its reflection both among the local investors, bureaucrats as well as consumers. Its substance is demonstrated in their distrust to the professional competence and performance of developing country investors and the distrust vis-a-vis the quality of their subsequent production. It is as P.O'Brien puts it out - a "product of the structural grip held by the OECD countries."[32)] or, as it was stated elsewhere, a reflection of a still strong "colonial slave mentality" prevailing among many developing countries.[33)]

6. Conclusions

The emergence and spread of MPVDCs creates a variety of consequences which may be of national, regional and global character.

Let us begin with the national dimension, which, logically is of primary importance, as national attitudes and regulations form a base on which MPVDCs develop. The major focus of our attention should be apparently the possible benefits gained by the recipient countries as the home country gains are more clear and not so much different as in case of developed countries. A principal question which is to be raised in this respect is whether emergence of MPVDCs is not a simple substitution of the first rate imperial power by the second or third rate ones.[34] To answer it however we have to recall first principal directions of criticism expressed by developing country recipients vis-a-vis transnational corporations of developed world. There were many of them, though by far and large they could be reduced to the issue of control and dependence. This in turn is a consequence of the fact that any subsidiary is both an element of a global TNC system, whose objectives are global and frequently diverse from the host country ones, and at the same time it is an element of a home country system responsive to the home country interests and policies.[35] Considering highly assymetrical power relations between developing and developed countries this could severely undermine national economic and political sovereignty of the former.

Now if we look at MPVDCs, we should notice that these elements are irrelevant at the moment when MPVDCs fulfil the criteria of MPEDCs, which are created precisely to avoid the said problems.

As for other MPVDCs there is too a marked difference between them and TNCs. The first difference is connected with apparently polycentric ownership of MPVDCs which was already pointed out earlier. MPVDCs are by far and large joint venture arrangements in which the host country companies hold significant equity shares. In effect, their goals and interests will necessarily reflect the goals and interests of the recipient countries. At the same time the power assymetry persisting among developing countries is obviously much smaller than in case of North-South relations.[36] Hence the danger of dependency is significantly alleviated. There is still another aspect of dependency which should be mentioned here. It is well evidenced by now that infusion of FDJ means also an infusion of foreign, home country, production system. The more monocentric home country integrated ventures the more foreign production system will be infused and thus perpetuate economic, technological and political dependency.

As it was already indicated in the preceding analysis MPVDCs tend to rely more on local production system of the recipient country and as a result their impact on the perpetuation of a dependency is much more limited.

Apart from the issue of control and dependence, which is of crucial meaning for the countries involved, we should also point out to other benefits possible to gain through MPVDCs. Apparently the most important one is better utilization of available local resources. In case of MPEDCs this is the fact by definition. In case of MPVDCs this comes out largely as a result of more appropriate technology transferred, scale labour-intensity, use of locally available inputs, as well as rationalization of production and business activities by capturing economies of scale and of specialization. More appropriate technologies may be supplemented by more appropriate products as it is logical to

believe that the consumption patterns of home developing country investor is more close to real needs of the host countries than the ones implanted by TNCs.

Last but not least we should also note possible benefits with regard to net foreign exchange impact. There are some indications that "developing country firms are much better than TNCs as far as financial impacts over time on the recipient country are concerned: there are also various indicators which suggest that they may be less of a foreign exchange drain than local firms."[37] This is basically an outcome of their lower propensity to import, to remit profits and royalties as well as to use the transfer pricing mechanism.[38]

Let us turn now to international implications of MPVDCs and particularly MPEDCs both regional as well as global ones. There are principally two main areas that are affected by the emergence of MPVDCs and MPEDCs, i.e. economic cooperation among developing countries - ECDC and their relative economic and political power vis-a-vis TNCs.

MPVDCs are themselves a product and an element of ETEC. They are undoubtedly the most binding and deepest form of ETEC as they involve not only the exchange of products or services but require joint contribution of different resources by the parties involved. The contribution, which is by far and large of a long lasting nature and not a one operation. By providing common technological base for the countries involved and integrating different production stages through the use of regional resources and market complementarities they might be viewed as a powerful infrastructural element for the subsequent trade and technological relations among developing countries.

The trade potentialities of MPVDCs may be well illustrated by statistics on intra-trade flows which on the whole represent nowadays 25-30% of the total world trade flows and their share is still increasing.[39] It is particularly high in manufacturing industries, main area of concern of developing countries. Interaction of individual production systems existing in respective national economies may also give rise to some multiplying effects in terms of enterprise to enterprise cooperation and thus divert persisting North-South links towards more South-South direction. Of course, this will not take place immediately and on the large scale, nevertheless its importance could not be denied. Equally important is interaction of the people involved - enterpreneurs, engineers, foremen, etc.

The enhancement opportunities for the Third World trade and technological relations are frequently the main goal of inter-government sponsored joint international ventures, of which Latin American, ASEAN and OPEC countries are the most illustrative example.

One of the most important international implication of MPVDCs and MPEDCs in particular is that they enable location of the technological, industrial and marketing learning processes within developing countries and thus they provide the possibility for more local, regional creation of a first-hand technology and not just being the "adaptive filters" of the changes introduced elsewhere. Of course, this infrastructural role of MPVDCs and MPEDCs for ECDC is dependent on many variables and principally on their dimensions as an economic phenomenon. What is important however is that national governments are in a position to play directly an active role in this process by having more possibilities to influence local companies in comparison to TNCs. Real impact of MPVDCs and MPEDCs on ECDC should not be measured only with statistically approved economic indicators. At least of equal importance is their influence through the social systems

involved. Their presence and successful operation draws in effect more attention of local enterpreneurs to potentialities existing right next door, makes them more prone to their searching and more willing to co-operate. Thus they come to play some catalytic role in crashing the overall OECD orientation, prevailing among the producers and consumers alike.

Emergence and spread of MPEDCs and particularly MPEDCs positively affects the bargaining power of developing countries in their relations with TNCs, which is both the result of new alternatives for the resource transfers as well as the strengthening of local industrial base and local industrial actors. Of course, the whole question should be seen in a proper perspective in order not to exaggerate.

As it was pointed out earlier MPVDCs do not invade so far as a rule main areas of TNCs activity which is due to their different firm specific advantages and hence they cannot substitute to much degree the latter. They too are by far and large rather small entities in the context of international standards and therefore they are not in a position to undermine significantly the role of TNCs or to challenge them openly.

Table 3.4: The Top Ten Third World Multinationals

Company	Country	Industry	Sales $ millions	Rank in intl.500[x]
Petrobras	Brazil	Petroleum	$ 19,005	7
Petroleos de Venezuela	Venezuela	Petroleum	16,451	11
Kuwait Petro.	Kuwait	Petroleum	12.234	31
Hyundal	Republic of Korea	Shipbuilding motor vehicles industrial equip.	8,036	41
Sunkyong	Republic of Korea	Petroleum textiles chemicals	6,270	62
Samsung	Republic of Korea	Electronics appliances food products textiles	5,967	67
Lucky	Republic of Korea	Petroleum electronics appliances	5,461	82
Ssangyong	Republic of Korea	Petroleum bldg. materials	2,892	161
Philippine National Oil	Philippines	Petroleum	2,890	162

x All companies on list derive more than 50 percent of sales from manufacturing and/or mining.

Source: Fortune Magazine. August 22. 1983

Particularly that the latter can always draw on their much powerful home base as well as to call for some solidarity actions from their industrialized partners. Nevertheless, as it may be, the existence of MPEDCs creates some uncertainty among TNCs and may make them more cooperative and responsive to the needs and requirements of the developing countries. Much will depend however on the future scenario of MPVDCs and particularly MPEDCs development and their spread to TNCs sensitive areas of activity.

Footnotes and references

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PART II

Setting the appropriate framework for MPEDCs

The first part of our report attempted to highlight the current state of direct capital flows among developing countries, their sectoral and geographical structure and resulted therefrom the spread of third world multinational production ventures. We tried to identify their specific characteristics, determinants and barriers of their growth as well as implications arising from their activity. The main focus of this part is to try to elaborate ways and means for the promotion of multinational production enterprises among developing countries in their normative sense that is such MPVDCs ventures which fulfill certain positive parameters set up. In doing so we are guided by their apparent importance both for the North-South relations. as well as specially South-South relations. We begin with the discussion on existing potentials for multinational production enterprises, followed by an analysis of ways and means for their promotion at national, subregional and regional level. The last but not least some ideas with regard to the possible role of UNIDO and UN system are spelled out.

Chapter 4: Potentials for multinational production enterprises among developing countries

1. Project level potentials

To assess the prospects for MPEDCs we may first refer to the characteristics of the industrial projects undertaken or planned for realization in developing countries. In this connection an analysis of UNIDO's project portfolio, run by UNIDO's Investment Cooperative Programme, may be very instructive. The first attempt of this type was presented by Mr. E. Becker-Boost, the Director of Investment Co-operative Programme. In his study on industrial investment projects in East Asian countries, based on an analysis of 101 investment project proposals in Malaysia, Indonesia, Philippines and Thailand, contained in UNIDO's project portfolio, he found out that the desire for foreign equity participation was expressed in over one-third of the proposals.

Table 4.1: Nature of foreign contribution desired in 101 investment project proposals in East Asia

	Per cent of all projects
Marketing	63
Sale/transfer of technology	61
Medium-term/long-term loans	44
Equipment supply	43
Equity participation	35
Management expertise	30
Training of manpower	28
Technical expertise	28

Source: E.Becker-Boost - The promotion and financing of industrial investment projects in East Asian countries, 7 February 1984, p.1; paper presented at the IFO - Internationale Konferenz; Wachstumsmarkt Südostasien - Chancen und Risiken unternehmerischer Kooperation, München, 21.10.83.

At the same time the need for marketing assistance, in which local enterprises in developing countries have an obvious advantage over developed counterparts if the output is aimed at their markets, was expressed in 63% of all project proposals. The same may be true with regard to equipment supply, wanted in 43% of the cases. Thus on the whole there seem to exist good chances for eventual MPEDCs, providing an existence of proper assets and mutual interest of investors from developing world.

The idea developed by Mr. Becker-Boost was further elaborated in a much broader study, based on an observation of 327 investment project proposals, contained in UNIDO's project portfolio as of 1st February 1984.[1)] The projects were analysed, inter alia, from the point of view of their scale, as measured by required investment outlays, branch-wise composition, country-wise composition as well as the nature of foreign cooperation sought. Some of their principal characteristics are summarized in Table 4.2.

As we can see from these data the number of investment projects planned by investors from individual developing countries, for which foreign contribution was wanted, is substantial and spread over a large number of countries. High share of investors from Africa deserves our special attention as by far and large, this region is severely under represented with respect to multinational production enterprises of its own. The data suggest that, on average, financial requirements per project are not very impressive and in many countries are very low, which means that finance should not be taken as the critical element precluding the spread of MPEDCs.

On the contrary we may conclude that financial characteristics of the projects point out that in many cases co-investors from other developing countries are the best and the only option. It is hard to believe that so small projects may attract the interest of large TNCs, which by their very nature tend to concentrate on big ventu es.

Table 4.2: Number and value of investment project proposals of developing countries contained in UNIDO's project portfolio/as of 1 February 1984/

Country	Number of projects	% of total	Total value in $ mn	% of total	Average project value /$ mn/
1	2	3	4	5	6
1. Chile	56	17,1	770,4	13,8	13,7
2. Egypt	31	9,5	1736,8	31,1	56,0
3. Bangladesh	30	9,2	203,5	3,6	6,8
4. Peru	28	8,5	153,3	2,7	5,5
5. Zambia	27	8,2	342,7	6,1	12,7
6. Kenya	25	7,6	91,8	1,6	3,6
7. Pakistan	21	6,4	1534,4	27,5	73,0
8. Tanzania	16	4,9	120,7	2,1	7,5
9. Mauritius	10	3,0	15,4	0,3	1,5
10. Malawi	9	2,7	16,0	0,3	1,7
11. Botswana	8	2,4	34,1	0,6	4,3
12. Mauritania	8	2,4	7,0	0,1	0,8
13. Upper Volta	7	2,1	275,0	4,9	39,3
14. Angola	7	2,1	67,8	1,2	9,7
15. Benin	7	2,1	29,0	0,5	4,1
16. Lesotho	7	2,1	13,6	0,2	1,9
17. Swaziland	5	1,5	15,2	0,2	3,6
18. Zimbabwe	4	1,2	42,3	0,7	10,6
19. Mali	4	1,2	2,5	0,04	0,6
20. Ivory Coast	3	0,9	5,7	0,09	1,9
21. Guinea Bissau	2	0,6	8,3	0,1	4,1
22. Togo	2	0,6	2,9	0,04	1,4
23. Zair	1	0,3	49,0	0,8	49,0
24. Ghana	1	0,3	17,5	0,3	17,5
25. Sudan	1	0,3	4,1	0,06	4,1
26. Thailand	1	0,3	1,0	0,02	1,0
Total	327	100,0	5578,4	100,0	17,1

Source: Own computations based on UNIDO's project portfolio

Of course, some of the projects appear to be outside the reach of developing country investors, however they are not so numerous in number as one could expect. Out of the said 327 industrial projects analysed only 25 of them required total investment outlays over $ 30 mn per project and only 10 of them were valued over $ 100 mn each.

The size of the projects planned is affected primarily by the nature of industrial activity undertaken.

Table 4.3: Branch-wise structure of developing countries investment projects contained in UNIDO's project portfolio /as of 1 February 1984/

ISIC	Industry	No. of projects	% of total	Value of projects $ mn	% of total
1	2	3	4	5	6
130	Fishing	3	0,9	24,6	0,4
210,230,290	Mining	10	3,0	202,9	3,6
311	Food manufacturing	50	15,3	1104,0	19,8
313	Beverage industries	6	1,8	493,4	8,8
314	Tobacco manufactures	2	0,6	7,8	0,1
321,322,323	Textiles and leather	35	10,7	404,9	7,2
324	Manufacture of footwear	3	0,9	11,7	0,2
331,332	Wood and furniture	15	4,6	94,4	1,7
341,342	Paper, printing, publishing	16	4,9	361,1	6,5
351	Industrial chemicals	39	11,9	1312,6	23,5
352	Other chemical products	12	3,7	34,4	0,6
353	Petroleum refineries	3	0,9	2,9	0,05
355	Rubber products	4	1,2	4,0	0,07
356	Plastic products	3	0,9	17,9	0,3
361,362,369	Pottery, glass, non-metallic mineral products	24	7,3	332,2	5,9
371	Iron and steel	18	5,5	803,3	14,4
372	Non-ferrous metals	4	1,2	1,8	0,04
381	Fabricated metal products	20	6,1	111,9	2,0
382	Non-electrical machinery	22	6,7	104,7	1,8
383	Electrical machinery	13	4,0	53,8	0,9
384	Transport equipment	8	2,4	31,0	0,5
385	Professional, measuring and controlling equipment	8	2,4	51,1	0,9
390	Other manufacturing industries	9	2,7	12,2	0,2
	TOTAL	327	100,0	5578	100,0

Source: as in table 4.2

As indicated in table 4.3 the largest projects were planned in industrial chemicals, iron and steel, food manufacturing and beverage industries. On the other hand in such industries as petroleum refinaries, rubber products, non-ferrous metals, footwear or electrical machinery the projects scheduled were very small and thus relatively easy to handle by developing country investors themselves.

Now let us turn to the second central question that is the nature of foreign contribution desired.

Table 4.4.: Nature of foreign contribution desired in 327 investment project proposals contained in UNIDO's project portfolio /% of projects analysed/

Nature of contribution wanted from foreign parties	Number of projects	% of total
1. Loans	258	78,9
2. Equity participation	230	70,3
3. Market access	109	33,3
4. Licences	94	28,7
5. Technical expertise	89	27,2
6. Sale of technology	89	27,2
7. Manpower training	87	26,6
8. Equipment supply	64	19,6
9. Joint-venture	36	11,0
10. Management assistance	20	6,1
11. Sub-contracting	7	2,1
12. Marketing	7	2,1
13. Raw materials supply	2	0,6
TOTAL	327	100,0

Source: J.Monkiewicz, J.Maciejewicz - Technology export from Comecon and East-West-South cooperation... op.cit.p.34.

As evidenced in table 4.4 the most wanted elements are foreign loans, followed by equity participation requirement. These two clearly dominate the scene. It is worth noting that the two are by and large substitutes - the project may be either co-financed by outright loans or through equity participation, which in turn may be either in kind or in money. Hence, we may assume that in only 9% of cases the two were non-substitutable. If so, it appears that there are good chances for eventual South-South equity ventures. This conclusion receives further support from an analysis of other relevant project characteristics. The third on the "wanted list" is market access requirement. We may assume that at least a good part of the projects is aimed at local markets supply. If yes, that would mean that the most attractive /and realistic/ offer is concerned with an access to neighbouring markets or more generally to the markets with similar demand characteristics /economic, social, cultural, technological/. That would evidently favor prospective investors coming from other, presumably neighbouring developing countries.

The same reasoning could be applied to all other elements listed in table 4.3, as in many cases developing country investors posses relevant technical expertise, are able to supply necessary equipment and technical assistance etc. The only problem is whether the parties concerned could find common interest and would be willing to pull their resources together.

Of course, the nature of contribution desired may vary branch-wise and country-wise, thus adding to or substracting from the drive towards MFEDCs.

2. Firm level potentials

In a foregoing discussion it was pointed out that so far the number of developing country firms, both either private or public, engaging in foreign direct investment is rather limited and distributed highly unevenly among the countries concerned. At present these are mainly the companies coming from leading newly industrialized countries /NICs/ and their total population is not more than few hundred. If we compare it with the amount of registered industrial enterprises in the region they are a very small elite indeed.[2)] But also this elite as was indicated can hardly be termed multinationals.

With this in mind we may assume that the firm level potentials for MPEDCs is much bigger than actually materialized. In this connection one could foresee two different processes to take place in the future.

The first one would be the increase of the number of developing country enterprises investing abroad. Of course, depending on actual political or general economic climate the stream of investors will be bigger or smaller but, in compliance with the theory of the firm, the phenomenon of the firms internationalization is objective and inevitable.[3)] It is a positive function of the maturity of the firm and its consolidation at home. It is a well established fact that during the first period of its existance enterprises concentrate on local, national markets. Only afterwards, accumulating enough skills, experience and resources they tend to move abroad. It is not a coincidence that Latin American companies seem to be the pacesetters of MPEDCs. It is precisely the question of their industrial maturity that makes them more internationally oriented. If this is the case, then one could expect that more and more firms from

other developing countries would be reaching the phase of readiness for internationalization of their production activity. Whether this would materialize and to what extent depends on many other factors, among which the political will to set up and maintain them thereafter seems to be the most important.

The second process we can expect to observe is the growing scope of internationalization of the present pacesetters. Again, as evidenced by the early experience of present developed countries it is a standard rule that the early phase of production internationalization is characterized by a small number of foreign affiliates, located predominantly in neighbouring territories.[4] Only afterwards, with the growth of resources, skills and experience the scope of operation is widening and converting from regional to global orientation. This is well confirmed by curriculum vitae of some leading third world investors - like story of Petrobras, Bunge y Born and some others.

3. Sectoral level potentials

In a recent UNIDO study on potentials for South-South cooperation and development it is suggested that four criteria /necessary and jointly sufficient conditions/ should be applied for identifying sectors appropriate for South-South cooperation.[5] These are the following:

a) technology of production must use intensively factors available in the South as a whole.
b) the dynamics of new product developments should not be high.

c) the industry should be characterized by above-average growth rates in both production and imports of such products by the South.
d) the learning-by-doing benefits should be relatively great.

Application of these criteria to individual industrial sectors and subsectors led to the conclusion that capital goods sector and basic products sector as well as rubber products and metal products subsectors of the light industry are the most promising areas for South-South cooperation /see table 4.5/.

Principally the same reasoning could be applied to the sectoral potentials of multinational production enterprises, however certain corrections are necessary. First of all we should rule out the criterion of relatively high import dependency on the North which may be important for South-South trade considerations /though it seems to place too much attention on the substitutional nature of South-South versus North-South trade relations/ but seems to be irrelevant in case of MPEDCs considerations. Dropping out of this criterion would enlarge our list of sectors conducive to MPEDCs by food processing as well as some subsectors of the light industry like textiles, wood products and printing and publishing.

The second important correction that should be taken into account is the issue of the economies of scale or optimum output size that is required by particular industries and hence may significantly influence the drive towards production internationalization. As it is well known major sources of the economies of scale are

Table 4.5: Criteria for Potential Development via South-South Trade and Co-operation

ISIC Sector	Indicators of Intensity in Resource Use								Share of Southern Imports from the North in Consumption of the South[d]
	Energy[a]	Skilled Labour[b]	Human Capital[c]	ICOR[d] DC	ICOR[d] LDCs	Capital K/L[c]	VA/L[a]	Index of New Product Development[b]	
1	2	3	4	5	6	7	8	9	10
Food Processing	.039	-	-	.99	.60	-	112	-	.082
311/2 Food Processing	.050	-	-	1.46	.82	-	103	-	.095
313 Beverages	.034	-	-	.60	.48	-	150	-	.069
314 Tobacco	.034	-	-	1.13	.25	-	179	-	.042
Light Industry	.050	L	18.6	.76	.91	8.30	72	-	.172
321 Textiles	.043	L	17.8	.98	1.32	9.40	64	L	.148
322 Wearing Apparel	.043	L	12.0	.46	.49	2.02	49	L	.092
323 Leather	.025	L	17.3	.76	.63	5.86	53	L	.088
324 Footwear	.025	L	-	.60	.45	-	-	L	.071
331 Wood	.054	-	12.2	.97	1.09	11.27	59	-	.108
332 Furniture	.054	L	21.7	.63	.76	4.52	68	L	.150
342 Printing	.055	H	36.2	.63	.66	8.42	94	H	.086
355 Rubber	.087	L	18.6	1.23	.70	10.19	102	L	.245
356 Plastic	.087	L	18.6	.72	.88	10.19	83	H	.343
381 Metal Products	.039	H	27.9	.90	.65	9.07	93	L	.255

Table 4.5 cont'd

1	2	3	4	5	6	7	8	9	10
Basic Products	.216	-	25.5	1.86	1.18	28.85	129	-	.303
341 Paper	.055	-	30.1	1.72	.68	32.94	115	-	.261
351 Industrial Chem.	.195	H	30.1	2.20	1.90	32.94	116	L	.416
352 Other Chemicals	.195	H	40.1	.96	.38	57.61	105	L	.113
361 Pottery	-	L	33.0	1.91	2.61	41.42	193	L	.046
362 Glass	-	L	33.0	1.18	.69	41.42	193	L	.176
369 Non-Metallic Minerals	.198	L	10.0	1.94	1.42	11.04	100	L	.125
371 Iron, Steel	.415	L	10.0	2.47	2.04	11.04	154	H	.446
372 Non-Ferrous Metals	.415	-	10.0	1.67	1.27	11.04	154	-	.434
Petroleum and Coal Products	3.495	-	65.6	1.09	.98	126.11	220	-	-
353 Petroleum Refining	1.868	-	65.6	1.39	1.06	126.11	220	-	-
354 Petroleum and Coal Products	5.122	-	65.6	1.04	.70	126.11	220	-	-
Capital Goods	.035	H	28.4	.77	.69	9.68	107	-	.603
382 Non-Electric Machinery	.029	H	29.0	.72	.75	10.04	105	L	.461
383 Elec. Machinery	.034	H	30.8	.75	.70	7.12	96	L	.471
384 Transport Equip.	.041	L	27.1	.86	.73	11.60	122	H	.757
385 Scientific Instruments	-	H	41.2	.86	1.21	11.15	117	H	1.264
390 Other	.057	L	17.8	.60	.59	5.67	81	H	-
Whole Economy	.104	-	28.3	.99	.89	20.52	107	-	-

Table 4.5 cont'd

Notes: a) Computed from the sector-specific input value of energy relative to the sectoral value added from a 1975 Input-Output table for France that is in the UNIDO data base.

b) First global study in the capital goods industry, UNIDO ID/WG.342/3 pp 103-108.

c) B. Balassa - A stage approach to comparative advantage in I.Addman /ed./Economic growth and resources: national and international issues, London, Mc Millan 1979.

d) Computed from UNIDO data base: information supplied by the Office of Development Research and Policy Analysis for years 1967-1977.

e) H. Lary-Imports of manufactures from less developed countries. NBER, New York 1968

ICOR represents incremental capital-output ratio.

DC represents developed countries.

LDC represents developing countries.

H)
L) represent High and Low, respectively. For criteria used in such classifications, see the original studies.

Source: Industrial development and South-South cooperation, UNIDO/IS.453, 13 March 1984.

indivisibilities of the production factors. Two related ways for reaching scale economies may be distinguished: through increased size of the activity and/or through specialization. Economies from increased size result from the fact that initial and operating costs of equipment increase at a lower rate than output capacity and last as long as this relationship is preserved. Economies from specialization on the other hand occur due to cost reductions stemming out from either horizontal or vertical specialization. Obviously enough both types of scale economies are determined by the nature of technology in use and hence with the introduction of some new technologies they may largely disappear. Thus for example an emergence of small, efficient and flexible mini-steel plants have led to the erosion of the position held by large, integrated steel producers in most developed countries. The same process seems to affect nowadays manufacturing of fertilizers. Dramatic changes occur due to microelectronic revolution.[6] Notwithstanding this last observation it seems justified to conclude that "the existence of potential economies of scale offers one of the more fertile areas for the identification of multinational projects, especially in the industrial sector".[7]

What are the industries then with most significant scale economies and hence most appropriate for MPEDCs? To answer this question properly a complex sector-by-sector analysis is necessary particularly that the concept embodies certain important limitations.[8] Most of the studies carried out so far reveal however that apparently significant economies of scale occur in such industrial branches as basic metals, metal products, building materials, rubber products, petrochemical and chemical products, printing, pulp and paper, and textiles.[9]

All of them have been already identified as potentials for MPEDCs when the other criteria were used which could imply that precisely in these areas the potentials for MPEDCs would be the most promising.

4. Country level potentials

Flows of technology and direct investments among developing countries show a high degree of a geographical concentration both with regard to home as well as host countries. Home countries belong to the industrial elite of the developing world, frequently referred to as newly industrialized countries /NICs/. Host countries on the other hand comprise both the NICs as well as their recent followers such as Sri Lanka, Indonesia, Thailand, Peru Tunisia,, Malaysia, Chile, Uruguay, Malta or Cyprus, frequently referred to as the "second-tier" countries.[10] Both, the home countries foreign investment propensity as well as host country foreign investment attractiveness depends primarily on the level of industrial development attained. In case of home countries it is a question of a generation of relevant ownership specific advantages /technological competence being the most important element/ whereas in case of host countries it is a question of location specific advantages which are primarily associated with the size and structure of the market and the existence of proper industrial infrastructure. In other words we may assume that the greater the industrial disparities among the countries the smaller the potentials for MPEDCs. Of course this is not to say that the best potentials for MPEDCs exist once the industrial levels of the countries concerned are alleviated. This is true only if we refer it to the overall industrial competence whilst some

Table 4.6: Some indicators of industrial level development

Region, years	Share in mfg value added of the South by sector					
	A	B	C	D	E	F
Latin America						
1963	60,1	56,0	64,2	44,1	61,4	57,8
1970	58,4	55,6	66,6	43,4	68,7	59,1
1979	54,6	52,6	62,8	42,1	66,5	57,3
Growth rates of VA /70-77/	4,23	4,95	8,50	3,95	10,70	6,66
Tropical Africa						
1963	8,3	5,1	4,2	0,4	2,9	4,9
1970	8,8	6,5	4,0	1,8	2,7	5,4
1979	7,9	6,0	3,2	1,9	1,4	4,5
Growth rates of VA /70-77/	3,70	5,88	7,70	4,84	11,26	5,76
North Africa - Middle East						
1963	9,5	9,1	7,7	43,4	2,8	12,3
1970	9,1	9,5	8,3	41,5	3,6	11,9
1979	9,8	9,5	10,0	38,8	5,2	11,4
Growth rates of VA /70-77/	6,79	9,28	12,49	5,22	21,01	8,57
Asia South						
1963	9,4	20,1	16,7	1,6	23,2	14,8
1970	10,2	16,5	13,2	12,3	16,0	12,6
1975	8,6	10,8	10,6	2,3	8,6	9,1
Growth rates of VA /70-77/	1,58	-0,34	6,94	2,76	5,88	3,08
East Asia						
1963	12,6	9,6	7,2	10,5	9,7	10,1
1970	13,4	11,9	7,9	11,0	9,0	10,9
Growth rates of VA /70-77/	9,29	15,15	15,94	8,56	21,57	13,96
South	100,0	100,0	100,0	100,0	100,0	100,0

A - Food processing, B - Light industry, C - Basic products, D - Coal and petroleum, E - Capital goods, F - Manufacturing total

Source: Compiled from UNIDO/IS.453, 13 March 1984 pp. 5-11

Table 4.6 cont'd

Composition of mfg value added by region and sector						Employment in the mfg sectors by region /thousands/					
A	B	C	D	E	F	A	B	C	D	E	F
27,62	30,07	20,70	9,05	12,56	100,0	804	1349	927	40	589	3709
23,78	27,32	23,97	8,22	16,70	100,0	1072	1837	1205	31	823	4967
19,87	24,35	27,39	6,41	21,98	100,0	1256	2407	1772	42	1510	6987
-	-	-	-								
44,53	32,03	15,58	0,93	6,93	100,0	103	172	114	2	43	434
39,04	34,66	15,54	3,72	7,03	100,0	199	334	102	2	47	684
36,74	35,53	17,90	3,74	6,09	100,0	299	522	162	5	67	1054
-	-	-	-								
20,54	23,08	11,71	41,93	2,74	100,0	183	401	231	12	86	914
19,51	23,17	14,93	39,03	4,36	100,0	204	435	175	17	78	909
17,60	22,05	21,85	29,60	8,70	100,0	251	572	281	22	108	1234
-	-	-	-								
16,96	42,22	21,04	1,27	18,52	100,0	794	2092	735	12	796	4430
19,48	38,06	22,25	2,03	18,19	100,0	873	2153	1234	21	1133[x]	5413[x]
19,64	31,31	28,98	2,19	17,88	100,0	1629	3165	1428	63	1166[x]	7451[x]
-	-	-	-								
33,28	29,53	13,37	12,40	11,42	100,0	340	835	342	24	211	1751
29,55	31,76	15,54	11,25	11,92	100,0	704	1417	319	19	397	2856
22,47	31,73	18,99	7,33	19,47	100,0	710	2456	589	21	1118	4894
-	-	-	-								

x - 1977

assymmetry in particular industrial branches is preserved. It is precisely this factor that makes direct capital flows among developed countries so intense and multidirectional.

If we look at the developing countries from this perspective we can note quite a complex picture. First it seems that on the whole the disparities among developing countries are increasing.[11] At the same time however it looks like there was a significant equalization of industrial levels among Latin America and East Asia on one hand and some between North Africa - Middle East and South Asia on the other hand.

Thus we may assume that from this view point both the pushing and the hampering factors with regard to MPEDCs will be in operation, and that we cannot expect major shifts in the country-wise composition of MPEDCs activities.

When assessing country level potentials we should also take into account the type of the national industrial strategies pursued. What particularly matters are the government views and policies with regard to the internationalization of production processes.

Restrictive government regulations both for capital outflow and capital inflow will inevitable pose additional barriers to the development of MPEDCs. More liberal and supportive measures applied on the other hand may result in the acceleration of the process observed. It will be even more so if some preferences for third world investors are granted. A closer look at current trends reveals that in recent years some important shifts take place. A strongly negative attitude of many of developing

countries towards multinationals give way to a more selective and refined policies and regulations which basic idea is to structure the phenomenon in such a way as to arrive at an overall positive balance of costs and benefits involved. There is also a growing recognition for the need of preferential treatment of LDCs investors as they can hardly compete on an equal footing with developed countries TNCs. Here however the progress is rather slow and largely confined to some integration groupings in Latin America and South-East Asia and concessions granted are sub-regional oriented.

Summing up the foregoing discussion we may conclude that on the whole the country level potentials for MPEDCs are predominantly associated with already active donor and recipient countries. There is also a room for setting up MPEDCs with regard to the least developed countries, in which case they can pool together their scarce resources to achieve the goals unilaterally unattainable. In this case however government intervention seems to be particularly important.

5. Sub-regional and regional potentialities

Evaluation of sub-regional and regional MPEDCs potentialities should principally be based on the analysis of the degree of complementarities among the countries concerned. These complementarities can manifest themselves in at least the following ways:[12)]

a) factor endowment complementarities /differential factor endowment/

b) production complementarities /vertical and horizontal linkage projects/

c) market complementarities /scale economies/

d) externality complementarities /non-market linkages/.

Existence of aforementioned complementarities provides an objective base for eventual coordinated actions which however to materialize require additionally:

e) adequate transportation and communication facilities.

f) existence of common economic interests.

The concept of complementarity was behind the drive of many developing countries towards establishment of various regional and sub-regional integration groupings / see table 4.7/. Most of them, created in the late 1960s and beginning of the 1970s, have, as recent UNIDO study points out, "fallen short of the relatively high expectations that were created by them and can hardly be regarded as a successful example for South-South cooperation".[13)]

Such a strong judgement seems to be much too overemphasized and requires at least some qualifications. It is true that these integration groupings /with an exception of LAFTA/ were not successful in increasing their intraregional trade flows /it still amounts to no more than 10%/ but practically all of them /with the exception of WAEC/ have considerably reduced their dependency on the North /by 5 to 20 percentage points in 1970-1978/, though it still remains their major partner.

Table 4.7: List of Selected Regional Groupings

Groupings	Members	Date of Foundation	GNP 1977 /bn US$/	Population 1977 /in millions/
1. Latin America				
ANDEAN PACT	Peru, Ecuador, Bolivia, Colombia Venezuela, /Chile/	1969	74	67
CACM	Costa Rica, El Salvador, Guatemala, /Honduras/, Nicaragua	1960	15	19
CARICOM	Jamaica, Trinidad and Tobago, Guayana. Barbados, Grenada, St. Vincent, St. Lucia Dominica, Antigua, St. Kitts-Nevis, Belize, Montserrat	1973	7	4
LAFTA /LAAI/	Argentina, Brazil, Chile, Mexico, Paraguay, Peru, Uruguay, Colombia, Ecuador, Venezuala, Bolivia	1960	382	289
2. Asia				
ASEAN	Indonesia, Malaysia, Philippines, Singapore Thailand	1967	104	247
3. Africa				
EAC	Kenya, Uganda, Tanzania	1967	11	43
UDEAC	Gabon, /Chad/,Congo, CAR, Cameroon	1968	8	12
ECOWAS	Benin. Cape Verde, Gambia, Ghana, Guinea Guinea-Bissau, Ivory Coast, Liberia,Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Upper Volta	1975	66	128
WAEC	Benin, Ivory Coast, Mali, Mauritania, Niger, Upper Volta, Senegal	1959	11	31

Source: Regional integration among developing countries, UNIDO /JS.405, 9 Sept. 1983 p.4

If however one looks at intra-regional trade flows from the point of view of their share in South-South trade the picture is somewhat different. The intra-regional flows of integration grouping that granted mutual trade preferences before 1970 accounted in 1960 for 39,8% of their exports to developing countries, it increased to 51,4% in 1970 and fell down to 47.4% in 1980.[14] The same share in case of the groupings that have not extended mutual trade preferences accounted respectively for 51,3%, 32.7% and 40.4% respectively.[15]

What is more important however is that the composition of intra-regional trade has undergone some positive changes, shifting noticeably towards an increased role of manufactures. Manufactured goods constitute a very high share of intraregional trade and are its most dynamic component. Therefore regional integration groupings seem to have played positive role in the development of regional industrial linkages.[16]

Basing on our earlier observations we may conclude that apparently in manufacturing activities the degree of intra-regional complementarities was the highest. If this is true we may further argue that both, already established intra-regional industrial linkages and the attained degree of intra-regional complementarity in manufacturing signifies a good potential for regional MPEDCs proliferation.

On the other hand we may also argue that the apparent poor effects recorded by regional integrative schemes of developing countries result precisely from the fact that in case of these countries effective integration depends foremostly on enhanced production integration. As a recent study by C.Vaitsos concludes

"... the major benefits of regional cooperation among developing countries do not result from increased competition and rationalization of existing productive activities. Rather they will occur from the introduction of new activities and/or from production deepening ..."[17] This results from the fact that the development process of developing countries is not so much demand - as supply constrained.[18] Hence we may conclude that the concept of MPEDCs may have more potential than simple trade-related arrangements.

When assessing sub-regional and regional potentialities for MPEDCs one should also point out to the importance of common economic interests which have already led to some binational and multinational projects and which with the development of interlinkages will be apparently intensified. This will be predominantly manifested in some infrastructural ventures, energy production, irrigation and the like.

6. Conclusions

The foregoing analysis points out that there exist wide potential for MPEDCs development. It can be detected both in the nature of industrial projects actually planned by various developing countries and type of foreign collaboration wanted.

It can be also visualized from the observation of the process of industrial maturation of developing country enterprises and their subsequent opening towards foreign markets and foreign operations.

It is confirmed by rising technological competence of ever more developing countries and their enterprises as reflected in world technology market. It could be detected in the structural changes in their economies and increased role of manufacturing.

Last but not least slow and troublesome process of their intra-regional reorientation provides an additional support for such reasoning. As underlined many times the set of aforementioned factors and processes is distributed highly unevenly in developping world and hence also the potentials for MPEDCs bear the same characteristic.

The most important however is the growing recognition among developing countries for the need of joint and concerted actions based on reciprocal benefits which is a precondition for their political will to set up and operate MPEDCs.

Chapter 4

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Chapter 5: Ways and means for the promotion of MPEDCs

1. Introduction

Emergence of MPEDCs is a reflection of operation of some objective mechanisms and factors within developing countries that give rise to the internationalization of their production processes.

Assuming its positive potentials both for home and host countries as well as for the South as a whole the question arise of how could one support this phenomenon as well as structure it in order to maximize possible benefits and remove or prevent undesirable side effects such as unequal distribution of costs and benefits. By doing it, dev. countries are by no means the pacesetters in the areas. These were precisely the present developed nations, that historically used much of their means and efforts to promote the spread of their capital and technology overseas.

There is of course an important difference in approach that should be pursued and namely that emergence and spread of MPEDCs should be beneficial to all parties concerned and should not be based on beggar my neighbour policy. It should be beneficial at least in the sense that they represent an attractive alternative vis-a-vis other possible solutions /like for example an operation of developed country TNCs or pure trade relations/.

There is too a tremendous difference in the situation of present developing countries vis-a-vis their developed predecessors. Developing country industrial sectors were born and "educated" as subordinated subjects of industrial sectors of the North.

They were structured in such a way as to provide an adequate facilities for the developed countries and rely predominantly on them in terms of technology, market, finance, organization and the like. Thus, any accelerated revision of the existing structure of the present world industrial system calls for an outside intervention i.e. coming from outside of industrial sector agents.

Promotion of MPEDCs, which should be undoubtedly complemented with their control, may be carried out at various levels and with a variety of instruments and actions. Let us look at it from three different, though interdependent levels: national, regional /subregional/ and global.

2. Ways and means at the national level

The current organization of world economic activity, based on an existence of souvereign nation-states points out to the principal importance of actions taken at the national level. It is even more so, as the emergence of MPEDCs calls for some movement of production factors which is far more binding than pure trade relationships among the nations.

The totality of actions taken at the national level may be divided into two distinct groups:

i) direct government intervention.

ii) establishment of conducive infrastructure for MPEDCs.

2.1 Direct government intervention

The need for direct government intervention is associated primarily with the role played by public sector and public sector enterprises /PSE/ in the economic development of developing countries as well as economic functions performed by the State. Direct government intervention may take a variety of forms however four of them seem to be the most important.

The first and apparently the most important one is the inclusion of MPEDCs as a component of national development plans and national development strategies. Of course, they should be viewed in the context of other alternatives opened, however there should be a clear understanding and conviction for the need of developing MPEDCs. This must be preceded on by analysis and appraisal of what specific goals and aims are supposed to be attained at the national level with the help of MPEDCs. Should they be inward or outward oriented, market or technology determined, which should be their role in South-South and North-South relations etc?

The second form of direct government intervention is an identification of sectors, activities and projects for joint undertaking with other developing countries. This is by far and large one of the weakest point of the entire process. As indicated in a recent UNIDO study one of "the major problem areas for industrial development of the entire Arab region are the lack of identified investment opportunities, feasibility studies and project preparation capability".[1)] There is evidence abound that the same problems persist in other countries and regions. The process of identification should be very careful indeed to avoid possible frustration and disappointment afterwards. It should take into account both potential benefits and the costs accrued, static as well as dynamic consequences of the phenomenon in question.

The next logical step in a government intervention is a utilization of existing public sector companies /or government controlled companies/ for the execution of an identified project. As was indicated before, public sector enterprises represent a significant economic potential in developing countries which is rather poorly reflected in the ownership composition of to-days MPEDCs. Thus we may assume that there exist substantial, unutilized reserves in this respect. It is even more so as, by far and large, they belong to rather big establishments as compared to private enterprises and therefore possess better logistic base for an eventual joint undertakings with other developing countries.

Sometimes it may be more feasible or even necessary to conceive a completely new establishment to undertake some joint projects and hence government intervention may be manifested in the form of direct creation of a new enterprise which will be at the outset a multinational one. Direct formation of MPEDCs by government intervention should be characterized by careful examination of their economic viability and social desirability. It should be always kept in mind that it is not a goal per se but only an instrument to attain certain goals and therefore the more considerations before the decision is taken the less problems thereafter.

2.2. Establishment of conducive infrastructure

Apart from direct int tionist measures the governments of developing c ries may play a significant role in the process of internationalization of their production units by creating a favourable and adequate institutional, legal, informative and financial infrastructure.

As far as institutional infrastructure is concerned, the following measures could be considered:

1) establishment or strengthening of national focal points for MPEDCs which would play both the supportive as well as monitoring and controlling functions. They could be the first contact point for prospective investors, both from abroad and those from the country concerned. They should be entrusted with MPEDC projects approval /and or registration/, for the capital inflow as well as for its outflow. They should too be responsible for the preparation of an adequate analytical reports and resulting therefrom political measures that would be presented to respective governments. At the same time they may incorporate some executive functions by establishing and developing project feasibility and project appraisal capacities that could be offered to potential customers. There is no necessity that such focal points be exclusively concerned with MPEDCs. On the contrary, it may be argued that they should house under one roof all forms of industrial enterprise to enterprise cooperation, both in its equity as well as contractual dimension. This would permit to see specific ventures in the context of the whole spectrum of possibilities which are offered. At the same time it will permit to construct a comprehensive and compatible national policy vis-a-vis all forms of industrial cooperation and foster integrated market approach.

2. conclusion of bilateral or multilateral agreements that would regulate the terms and conditions

for capital inflow from other developing countries, which basic aim should be the granting of some margin of preference for such inflows or at least elimination of some discriminatory measures. This could cover, inter alia, avoidance of double taxation treaties /which paradoxically are more often between developed and developing countries than among developing ones/, introduction of a simplified registration procedures /present hard requirements of many developing countries are more easily faced by large TNCs, having a proper logistic infrastructure than by relatively small establishments from developing countries/, tariff and tax concessions, preferential market access and the like.

The degree and margin of concessions offered should not be however exaggerated in order not to create new monopolies hidden behind the government measures but on the other hand they should counterweight apparent initial advantages of TNCs. A schedule for gradual elimination of such preferences could be an integrative part of such measures.

Institutional infrastructures has to be necessarily supported by a proper legal framework that would regulate in a clear and comprehensive manner all related aspects of the phenomenon. The question should not be understood exclusively in a narrow sense i.e. the legal infrastructure should not be confined solely to the regulation of capital inflow and/or outflow. Emergence and operation of MPEDCs is affected also by labour market regulations, social security provisions, foreign trade regimes etc,. Therefore, establishment of an adequate legal infrastructure requires an overall review of laws and regulations affecting industrial activity in the country concerned and introduction of necessary changes and corrections.

An important element of MPEDCs infrastructure constitutes an informative network. It is of special significance in case of developing countries which economies are by far and large predominantly oriented to the North. Thus, the trade related information channels that normally serve this function do not operate properly. In view of this there is a clear need for countries to create some substitutes that would fulfill the task.

Last but not least there is an over-riding need for an adequate financial infrastructure. Again, its raison d'etre is associated with the fact that international financial markets are controlled by rich, developed nations and TNCs closely bound with international banking network. At the same time local and regional financial infrastructure, though growing and expanding, is by far and large rather reluctant in financing industrial projects. As indicated in UNIDO survey on multilateral finance institutions in the South "the aggregate maximum amount allocated to industry was about 20 per cent".[2)] Therefore it might be advisable to arrange for special loan facilities for MPEDCs.

3. Ways and means at the subregional and regional levels

As was indicated before a predominant part of MPEDCs, currently in operation is of subregional or intra-regional nature. Hence one could assume that the actions and measures taken at this level are of primary importance for MPEDCs programme success or its failure.

There was a firm belief in the past that a sheer formation of subregional/regional economic groupings with some degree of market protection vis-a-vis outsiders

and some joint policy measures would automatically revert existing dependence on the North and enhance economic ties among the local establishments. However, as indicated in several studies, the results turned out to be rather poor. What could be then specifically done at the said level for the promotion of MPEDCs? It seems that at least the following measures might be considered:

1) Establishment of subregional/regional mechanisms favourable to MPEDCs and based on reciprocal margin of preferences. They could include inter alia:

a) harmonization of economic policies of the countries concerned with respect to foreign direct investments, granting of preferential treatment to subregional/regional capital, harmonization of industrial promotion schemes, introduction of common tariff nomenclature, coordination of national development plans, regulation on social security and labour migration issues etc.;

b) setting up of regional complementation schemes along the lines elaborated in the Asean countries, which essence lies in a planned and coordinated process of vertical and horizontal specialization.[3] As Asean experience indicates they should not be based exclusively on regional investors as well as they need not necessarily include all countries of the region. but also include outsiders. providing that the controlling share rests with regional investors, as well as recognized bilateral or trilateral ventures;

c) setting up of sectorial programmes supplemented by regional industrial joint venture programmes. Here one could refer to the experience of Andean as well as Arab countries where such programmes have been institutionalized and apparently recorded some degree of success.[4] The essence

of such programmes lies in a coordinated development of certain industrial sectors within subregional/regional groupings which is achieved, inter alia, by instituting some kinds of regional industrial corporations. It is particularly important instrument for the protection of less developed countries involved.

2. Establishment and strengthening of subregional/regional financial infrastructure and its restructuring towards MPEDCs projects.

There is no doubt that promotion of MPEDCs requires some additional financial resources. In the case of the sectoral industrial development programmes undertaken by Andean Pact it was estimated for example that the direct investment requirements for two of them - the metal mechanical and the petrochemical industries - would amount to about $ 3,8 bn. The total financial implications for the first generation of five Asean large scale industrial projects were estimated at about $ 1,3 - $ 1,5 bn. [5)]

Thus it seems necessary to undertake certain measures that could ease the existing situation. They could include inter alia:

a) adjustment of existing regional financial institutions for particular needs of MPEDCs by creating special promotional units within these institutions, by establishment of pre-investment funds for the preparation and promotion of multilateral investment projects and by provision of loan funds for such projects.[6)]

b) utilization of regional financial institutions as guarantors for developing country investors that approach other financial intermediaries for relevant resources, and thus increasing the effectiveness of available regional funds;

c) assigning more active role for regional financial institutions in identifying and promoting projects designed to attract investible founds on a joint-venture basis.[7];

d) establishment of regional investment insurance schemes to cover the risks associated with MPEDCs. In this regard the World Bank proposal for setting up of a Multilateral Investment Insurance Agency deserves special attention;[8]

e) when feasible and appropriate, creation of new financial institutions specially geared towards MPEDCs could be considered.

A good example may be a recent proposal to set-up a Partnership for African Development /PAD/ put forward by African and Arab experts in 1982 with the aim of promoting joint ventures in sub-Saharan Africa.[9]

Information on investment opportunities, technological and market potentials, on national laws and regulations is - as indicated before - a crucial element of the promotional system at the national level. It is even more so at the subregional/regional levels.

Creation of special regional information offices or some brokerage institutions seem however to be of little help. Instead - as an experience of some countries shows - or parallely, the development of regional industrial associations like Asean Regional Industrial Clubs

/ARICs/ or Arab Producers Associations should be promoted and strengthened. They appear to be excellent fora for interlinkages among local enterpreneurs, offering possibilities for joint meetings, deliberations and preliminary negotiations with regard to MPEDCs. They too give a feeling of some common goals and interest to the enterpreneurs of the region, thus providing a sort of a psychological infrastructure for MPEDCs projects.

An important element for regional measures should be joint training and education facilities for prospective MPEDCs managers. Multinational business requires frequently different knowledge and qualifications which could be imported by setting up special regional courses or educational institutions. A good example may be the Asian Management Institute which has already acquired some international repute. The possible role of such institutions should be viewed not only is a narrow training and educational activity but also as a means to create and support personal relationships among regional managers and enterpreneurs.

4. Measures at the global level

Measures taken at the national and subregional/regional levels should be supplemented by some actions and means carried out at a global level. Their general direction should be the creation of some mechanisms for intra-South industrial cooperation activity and development of some technical instruments that would both support it and guide it.

It is interesting to note that the whole international institutional machinery that has been developed so far, with the UN system at the heart of it, is by far and large oriented mainly towards South-North or

South-East relations.. Current global debates and global thinking are also structured along these lines. As a result developing countries are much more busy with extra-South than intra-South issues. For the same reasons the degree of knowledge of intra-South related aspects of industrial cooperation is much lower than of the extra-South ones. Such specific structure of the present global institutional machinery leads to the fact that economic cooperation among developing countries is a by-product of the decisions and developments in South-North/East/plane as well as that there is no comprehensive forum which could assist developing countries in their internal negotiations and elaboration of intra-South policies and mechanisms. There is nothing like OECD for the North or CMEA for the East.

Therefore it seems reasonable to suggest an establishment of the Third World Secretariat.[10] Its need is felt particularly with respect to direct enterprise to enterprise cooperation and especially with respect to MPEDCs, which require some global solutions and actions at the level of all developing countries. The said Secretariat should serve primarily as a negotiating forum among developing countries however it could be also used for the debates with the industrialized world. The exact form it could take is a matter for consideration by developing countries themselves.

Another important line of the activities at the global level could be elaboration and establishment of specific instruments aiming at the promotion of MPEDCs and South-South industrial cooperation in general. They could include inter alia:

1) Project Development Facility aimed at assisting in preparation of industrial projects, particularly of binational or multinational nature.

2) Industrial Project Information System which should be entrusted with the task to collect and disseminate information about planned /or implemented/ industrial projects and thus provide the base for possible negotiations on their internationalization.[11)]

3) MPEDCs Programme on Experience Sharing that should concentrate its activity on collection and diffusion of relevant information and experience of different countries and regions. An important part of the programme might be a special Solidarity Fellowship Fund, to organize and finance on-the-job training of developing country managers and enterpreneurs with respect to the management of MPEDCs.

Last but not least global level measures should also include some sort of a financial cooperation for MPEDCs. It may vary from some loose forms, like recent proposal for International Council of Third World Banks, to wholly integrated, like the well known concepts of Bank for Developing Countries /Group of 77/ or Bank for Industrial Development of Developing Countries /UNIDO/.[12]

Chapter 5

Footnotes and references

1) The role of South multilateral institutions in industrial finance. Patterns, problems and perspectives. UNIDO/IS.419, 2 December 1983, p.3;

2) The role of South multilateral institutions ... op.cit.p.1;

3) Regional industrial cooperation: Experiences and perspective of ASEAN and the ANDEAN Pact. UNIDO/IS.401, 12 August 1983, pp. 37-39;

4) For an analysis of Arab experience see: E.T. Ghantus - Inter-Arab joint ventures, ICPE/UNCTAD, Ljubljana, October 1983, mimeo. pp.30;

5) For details see: Issues related to the promotion and financing of integration projects of developing countries, UNCTAD/ST/ECDC/23/3/ 17 May 1984, p.14;

6) Issues related to the promotion ... op.cit.p.2;

7) Multilateral development finance institutions of developing countries and the promotion of economic cooperation and integration, UNCTAD/ECDC/166, 18 May 1984, p.116;

8) See A. Papić - Joint ventures among developing countries, ICPE/UNCTAD, Ljubljana, October 1983, mimeo p.31;

9) See: Declaration of African-Arab Economic Partnership, Bellagio, February 1982;

10) See: Industrial cooperation among developing countries, Bangkok, Thailand 18-22 July 1983, UNIDO/ID/WG.399/4, 8 August 1983, p.18;

11) Industrial cooperation among developing countries..op.cit.p.18

12) For a comprehensive review of various concepts see: South-South banking cooperation, RCCDC, Ljubljana, 1983, pp.348.

Chapter 6: Possible role for UNIDO

UNIDO, due to its vast experience in industrial development of developing countries and substantial human as well as financial resources should play a key role in the promotion of MPEDCs, both directly and indirectly i.e. through performing coordinating functions within the UN system family. Its direct contribution could be divided into three lines of activity: alerting and initiating functions, methodological support and operational functions. Let us take them one by one.

1. Alerting and initiating activity

As indicated before, MPEDCs so far are a rare phenomenon. Most of them are domiciled in a handful of developing countries. Even less countries have special legislation on MPEDCs. It indicates both a relatively low interest and capability for setting-up MPEDCs in the countries concerned.

Therefore there is an obvious need for undertaking and carrying out some alerting and initiating activities. UNIDO should play an active part in these activities. They could include inter alia initiating and conceiving some studies and initiating as well as preparing relevant publications, discussing various aspects of MPEDCs operation. They should particularly emphasize MPEDCs potentials in view of the other forms of South-South cooperation opened and identify their benefits as well as costs and constraints. Alerting and initiating role of UNIDO may be also realized through relevant meetings and conferences at the country, regional and inter-regional levels. Their nature could be very diversified - on one extreme there would be some gatherings of a more general, expert nature, on the other hand one could think of some grass-root level meetings, attended by enterpreneurs and managers interested in the issue and last but not least some other meetings at the policy making level of the countries concerned.

UNIDO might be both an initiating agent of such meetings, by providing some background material evidencing the role of MPEDCs for given region or countries as well as its direct sponsor and organizer. Due to the limited resources available it might be advisable for UNIDO to concentrate more on initiation than organization, and if organization than mostly at inter-regional level. In view of the present experience however such meetings should be initiated and organized predominantly at intra-regional level or more precisely at the level of some groupings that seem to be linked by common problems and interests.

Alerting and initiating should not be only tailored to the specific groupings and region but also to individual industries or group of them, exhibiting similar characteristics. It was already pointed out earlier that possible role of MPEDCs as well as their legal and organizational modalities depend on the nature of the industries concerned. They are different say in petrochemical than food industries. If so then it is logical to assume that the eventual success of the promotional activity depends inter alia on taking proper account of these characteristics.

In carrying out its alerting and initiating functions UNIDO should aim at striking an adequate balance between the two. This balance however seems again to be region-wise and branch-wise determined. In such regions like Latin America or East Asia where numerous MPEDCs are already in operation it is obvious that there is more need for initiation than alertion. In other regions like for example Africa or West Asia where only a handful of MPEDCs exist much more emphasis should be devoted to the alerting activities, that would bring the attention of both the policy makers and the business community to the potentials of MPEDCs.

The same is true with regard to the branch-wise approach. There are some industrial branches like textiles or metal fabrication which are well ahead in MPEDCs formation. There are however some others which still represent an incipient stage, like food industry, electromachinery or petrochemicals. In the first case then more initiation is needed in the second case more alertion is required.

Thus we may conclude that on the whole the structure of the alerting and initiating activity in terms of the balance between the two as well as in terms of the forms and methods should be as much as possible individualized region-wise and branch-wise.

The alerting and initiating measures should not be confined only to some publishing and organization of the relevant meetings. It could also be expanded to more directly pragmatic measures like initiating the organization in the developing countries of regional/sub-regional MPEDCs information network, organization of technology fairs and exhibitions that would provide an adequate information on their mutual technological capacities and requirements, promotion of the establiment of regional and inter-regional producers association etc.

2. Methodological support

Formation of MPEDCs and their subsequent operation is not by far and large the bread and butter of the present developing country enterpreneurs and managers. The same is true with regard to governmental machinery concerned, including public sector enterprises. In view of that a vast field for UNIDO action emerges. Its major component should be the preparation of specific guidelines, reviews, handbooks, instructions and model contracts, of direct practical relevance to the area

discussed. They could specifically include:

a) preparation of a set of guidelines for multinational industrial projects identification, since at present most of the existing manuals is primarily concerned with national projects. Multinational industrial projects however have beyond doubt some specific features which justify and require special considerations.

Thus the said guidelines could be an important tool for generating sound, economic viable and politically acceptable ventures. The need for such a tool is even more justified as the experience accumulated and methods used in developed countries may not be directly applicable to the specific environment of the developing countries.

b) preparation of specific handbooks and guidelines on the evaluation procedures with respect to multinational production enterprises. Particular emphasis should be given to the specific features of the evaluation procedures in comparison to the pure national project, the calculation of the direct and indirect benefits /linkage effects/ as well as a calculation of the costs involved. Attention should be given to the differentiation between private and social elements of the relevant cost-benefit analysis.

c) apart from the guidelines on the evaluation of multinational industrial ventures there is also a need for the relevant methods and procedures which would serve for the evaluation of the participation in bi-or multinational industrial projects. They should include also the techniques and mechanisms for balancing cost - and

benefit sharing by the interested parties. This is an important practical element in view of the differentiated nature of the costs and benefits as well as diversified type of the contributions supplied by respective investors. Practical suggestions on how to calculate equity contribution, profit sharing, operational expenses and the like should be included.

d) preparation of specific guidelines and instructions related to the establishment of MPEDCs. They should cover inter alia such elements as ways and methods of seeking foreign partnership and its eventual selection, ways and rules for negotiating procedures both with regard to the partners selected as well as respective governments, identification of necessary logistic infrastructure, identification of decision/actions flow chart etc. For all elements principal check-lists should be supplied. The said guidelines should also indicate available sources of information on potential partners, legal requirements of individual developing countries etc.

e) preparation of a review of different legal and organizational modalities of possible MPEDCs. Such reviews should not be limited only to pure narration but include adequate hints, pointing out to the possible reasons and consequences of selecting specific modalities, discussing their appropriateness for different industrial branches /sectors/ as well as for different national economic policies.

The said reviews should incorporate, to the maximum extent possible, available empirical

findings and present both the success as well as failure stories, referring them to the legal and organizational modalities accepted.

f) preparation of a set of model joint-venture contracts taking into account both the specific features of different industries as well as prevailing types of the legal systems in the developing countries.

g) a broad area of methodological support relates to the financial aspects of MPEDCs, particularly that the scarce finance or inability to arrange it properly constitutes on important hampering factor which frequently precludes the possibility of a multinational industrial undertaking or results in its eventual failure.

The possible role for UNIDO could include:

i) preparation of a review of existing sources for multilateral industrial funding with the detailed description of their ways of the operation and practical instructions on the methods for their approaching;

ii) publication of a handbook on possible modalities of MPEDCs financing, with practical advices on when and why specific ways of financing should be used and with the presentation of eventual economic consequences due to the selection of each of them;

iii) preparation of the guidelines on the insurance of MPEDCs and setting-up of national regional or inter-regional special insurance schemes.

3. Operational functions

Apart from alerting, initiating and methodological activity UNIDO should also undertake several action-oriented measures aimed at the promotion of MPEDCs. It is even more urgent in view of the fact that so far there is a clear domination of discussions and studies over concrete measures. It is a natural and unavoidable phenomenon before new activity is launched though it should not last too long and what is more important it should result in some practical follow-ups. Basing on the foregoing discussion the following measures could be suggested.

a) setting up of South-South Investment and Cooperation Promotion Offices. They could be either regional or national ventures or both. As it is well known, UNIDO has relevant experience in the area since it has established several Offices for Investment and Cooperation Promotion in the developed countries/so far such offices exist in Brussels, Paris, Cologne, New York, Tokyo, Vienna and Zurich, with the aim of enhancing North-South and East South relations. There are no such offices in the South which once again confirm our observation spelled out earlier in the text that the present global mechanism is much more concerned with extra-South than intra-South relations. The functions of such offices should not be limited only to the promotion of MPEDCs but cover all forms of enterprise to enterprise cooperation arrangements. Their activity could specifically include:

i) building up of an inventory of local /regional/ enterprises which express their interest in South-South ventures;

ii) informing local /regional/ industrial organizations on planned investment projects whose implementation requires some sort of foreign contribution;

iii) informing local /regional/ enterprises about the demand for new technologies, turn-key plants and equipment making use of the studies and prefeasibility reports available with UNIDO for setting up direct contracts with prospective investors from other developing countries.

iv) searching for potential local /regional/ enterprises interested in some specific ventures for which request is made;

v) organization of promotional meetings for investors and enterpreneurs coming from developing countries;

vi) supplying relevant assistance in course of first contact making, trade talks as well as during eventual negotiations;

vii) building up and constant up dating of the inventory of local /regional/ investment and cooperation proposals, specifying the terms and conditions of the initial offers.

The said offices could be linked to three current UNIDO programmes - Investment Promotion Programme, Technological Exchange Information System /TIES/ and Industrial and Technological Information Bank /INTIB/, which would both make use of the existing infrastructure as well as lower necessary expenses. With their establishment and

expansion they should become the major focal point for South-South enterprise to enterprise cooperation, including MPEDCs.

b) setting up of regional and inter-regional Industrial Project Information Systems. It could be either a part of South-South Investment and Cooperation Offices or the first step towards their creation. Their principal task would be information handling i.e. collection and dissemination of the relevant information on the planned and undertaken industrial projects. At the current stage they should be predominantly of a regional dimension in order to increase their efficacy and decrease their operational costs.

c) setting up of Enterprise to Enterprise Cooperation Training Programme. Its principal objective should be imparting of relevant managerial, financial and legal skills and knowledge on interested managers and enterpreneurs from developing countries. The programme could cover both the public as well as private sector, business community, public officers as well as development bankers. To finance the programme a special Solidarity Fellowhip Fund, drawing on the contributions of individual international and national organizations as well as interested governments could be established. The said programme should include both formal courses in some identified centres of excellence as well as extensive on-the-job training. For public sector enterprises and public officers it might be recommended to draw on the experience accumulated in the planned economies and particularly in those with lower level of development.

To maximize the benefits of the programme it should be requested that the prospective fellows pay back their training by involving themselves at the training activity at the national or regional levels. This way they would constitute an initial pool of experts for the subsequent regional and national training programmes. In this area the cooperation with ILO seems to be highly desirable.

d) <u>setting up of International Programme on MPEDCs Experience Sharing</u>. The aim of the programme would be the provision of mechanisms for the exchange of experience on MPEDCs and other forms of enterprise to enterprise cooperation currently in operation. It should cover both public officers, managers and development bankers. The programme could be based on at least three different forms of action:

   i) organization of regional, inter-regional and sectoral meetings and workshops of the people concerned, to discuss issues of common interest. Existing regional integration schemes might be approached for relevant organizational and financial support;

   ii) organization of relevant study tours and working missions to get acquainted on the spot with existing MPEDCs ventures and government policies in different developing countries;

   iii) establishment of a special UNIDO Newsletter on the problems at issue, or making use of

the already existing periodical publications of UNIDO, by adapting them, if necessary. Here one could particularly think of UNIDO Newsletter or TIES Newsletter.

e) setting up of MPEDCs Technical Assistance Programme which would provide relevant aid at the request of respective governments. The programme should cover inter alia:

i) project development facility to assist in the identification and preparation of multinational industrial projects;

ii) project negotiating facility to assist in the negotiating process;

iii) project financing facility to assist in the arrangement of adequate financing;

iv) trouble shooting task force to assist in resolving of emerging problems in course both of project implementation as well as its operation.

f) setting up of MPEDCs Monitoring Programme that would aim to register current developments in the area both with respect to the magnitude and structure of existing MPEDCs, their economic impact, changing government policies and regulations, emerging potentials and barriers. The programme should make use and establish close linkages to already existing data banks of the Harvard University and International Center for Public Enterprises in Developing Countries /Yugoslavia/.

g) setting up of a Special Task Force for Least Developed Countries. Its aim would be to explore the possibility and feasibility of establishing MPEDCs in this group of countries, identify areas for possible ventures, render assistance in project development and the like. Creation of such task force seems to be particularly justified in view of the special attention given to least developed countries within UNIDO programme of action as well as their clearly inferior position with respect to other groups of countries.

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