TNCs and the Third World:
Need for a Realistic Policy Framework

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Transnational Corporations (TNCs) occupy a unique place in the global economic system. The fact that TNCs control vast and varied resources[1] places them in a position where from they can exercise effective influence at various levels of the policy making systems besides their fast growing capacity to play a decisive role in determining the life styles and consumption patterns of the present day consumers. Their visibility is becoming more pronounced. TNCs are admired by many; and the same is true of the TNC critics. One does, however, find an abundant degree of misinformation and untrue assumptions about the TNCs. There is plenty of ignorance even on basics about TNCs. Here we attempt to bring out a few of these and raise some questions.

The first clarification needed is with regard to the very nature of the transnational corporation. TNCs are private corporations, most of them originating from the industrialised countries,[2] endeavouring to optimise their global advantage. All operations of theirs have to be judged in terms of net economic advantage and profit. Thus, the expectation that TNCs could promote national interests of anyone host country, especially vis-a-vis their parent enterprise or home country, would be wholly a misplaced one. TNCs are in business of making profit and generating maximum surpluses for themselves; it is none of their concern to promote development of the host countries. However, to the extent they stand to benefit from the growth and development of the host country they would not hesitate to project themselves as the real promoters of development in the country of their operation. TNCs would seek and pursue all such opportunities that give them economic advantage. The task before host developing countries on the other hand has to be to identify which transnational offers the best and costs the least. A transparent system of business requires information to be shared openly. It so happens, however, that a great deal of detailed economic information is made public by governments and comes to stay as public knowledge; the same is not true of the TNCs. Information and data on their operations is extremely limited; and this too is released with extensive window dressing. A consequence of this is that private corporations hold discussions with full knowledge of the government's stand but government negotiators have extremely limited information, and

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1. Except for Brazil, Argentina, Mexico, Venezuela, Saudi Arabia, Iran, Iraq, Turkey, Indonesia, India, Republic of Korea, Hong Kong and Taiwan none of the countries in the developing world had a GDP of more than $ 50 billion in 1991. Obviously the number would be much smaller if one keeps out the oil exporters. On the other hand, there were at least 21 transnational corporations with total sales exceeding this amount during the same year. Looked in a different way total sales of General Motors was lower than the GDP of only Brazil, Mexico, Iran, India, Republic of Korea and Taiwan in the developing world. See: Table 6.1 in UNCTAD, Handbook of International Trade and Development Statistics, United Nations, Geneva, 1994 and Table 1.2 in UNCTAD, World Investment Report 1994: Transnational Corporations, Employment and Workplace, United Nations, Geneva, 1994.

2. During 1985-89 the developed countries accounted for 96.8 per cent of total foreign direct investment outflows with USA, UK, Japan, FRG and France accounting for as much as 69 per cent. See: United Nations Centre on Transnational Corporations, World Investment Report: The Triad in Foreign Direct Investment -- 1991, United Nations, 1991.

this too is a tutored one, at their command.[3] The nature and direction of the flow of advantages should be only too obvious. The primary point being made is that TNCs have to be viewed as business organisations and one should not expect them to be in social service. Also, when faced with a choice of preferences, they are obliged to promote and place higher priority to the interests of their parent country and parent corporation.

Secondly, one often assumes that each TNC has an industry/area specialisation. May be it was so in the early stages of TNC development. It holds true no more. Transnational corporations are in business and are not wedded to any one industry, one type of activity, or one nation. Like any shrewd businessman, TNCs stay in an industry as long as it gives them extra advantage. If their activities do not offer special premium they must shift and move to better alternatives. This should be an understandable business logic. For policy makers, therefore, it should be clear that TNCs cannot have any special love for any one location. Their decisions have to be impersonal. One should not, therefore, take any moral stances while dealing with TNCs. One does visualise that Transnationals would attempt to enhance their capacity to move from one activity to another.

Mobility shall be the keyword for TNCs to follow. This implies that TNCs must keep their own investments to the minimum, especially in the fixed assets that would restrict their mobility. What would be the best economic activity that TNCs should take up, if the mobility logic is accepted? There appears to be a clear area in which TNCs should be seen as major actors. For instance, if a TNC takes up trading operations, the corporation can enter in any market with a big bang due to the very large financial resources at its command. Here, one is not referring to trading of the traditional type. In the present day world, trading means bridging the gap between the consumer and the producer -- the role often assigned to intermediaries. The essential component of the activity is to service the end-user. In the modern trading one would include all that goes under the name of packaging and developing consumer acceptability.

The new role of TNCs -- the same should hold true of large national corporations -- would be in trading and for this there are many reasons. By confining to trade and distribution services of what has been manufactured by others, one avoids all problems of direct confrontation with labour and other regulatory bodies. One has only to ensure that goods supplied are of a `standard' determined by the corporation. There can be as many suppliers as the situation demands. The entire responsibility for manufacturing is outside the liabilities of the large corporation. Instead of depending on one or only a few suppliers it would be of advantage if the suppliers are many and the buyer is only one. To achieve such a situation one should expect that there would be insistence by the corporation to have exclusive rights on all output of the manufacturer. Secondly, the supplier is not granted any rights to place any identification marks or brand names different from what is given by the

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3. The manner in which the foreign investors came prepared to reduce the costs of power projects after the Enron fiasco is a clear indication of the extent of naivete displayed by the Indian side in negotiating these projects.

corporation.[4] There has to be strict adherence to the norms. But, the end price or brand name has to be of no concern of the manufacturer. The system gets perfected as the ownership of `brand names' and their popularisation through massive advertisement campaigns is taken up by the intermediary corporation.[5] Thanks to the new laws relating to `intellectual property rights' gaining support of increasing number of countries, tendencies at emerging trade monopolies would get strengthened. One knows it too well that any monopoly (or monopsony) situation gives advantage to the more powerful and the privileged than the average consumer. The future trend, one should expect, would be for the TNCs to be seeking to hold widest possible legal rights on manufacturing technologies and processes and brand names. If this was not to be so, TNCs would lose their special position. Viewed from the basic logic and merits of competitive world, could one assert that the above mentioned trends would promote competition that leads to reduction of costs to the benefit of the consumer?

Third, a widely promoted assumption is that entry of TNCs in the developing countries can help the host countries to meet balance of payments problem. For this, it is argued that their direct business linkages in home markets (which are the industrially advanced nations) and control over domestic distribution networks can provide the opportunity to enhance host country's exports. Added to this is a long and winding argument that TNCs would transfer capital resources without placing any burden on the exchequer.[6] TNCs are also supposed to be the carriers of new and modern technologies

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4. A host of popular consumer goods marketed by TNCs in India are indeed manufactured by local small scale units. Tooth paste, tooth brushes, shampoos, talcum powder, creams, lotions, pomades, etc. sold under the brand names of Colgate, Hindustan Lever, JL Morison, Ponds and Ciba-Geigy are only a few examples of this practice. See Chandra Shekhar, Political Economy of India, Vikas, Delhi, 1992.

5. From the aggregate level data brought out by the Reserve Bank of India it can be seen that relatively speaking TNC subsidiaries and affiliates in India spend double the amount on advertisement in relation to their sales compared with large companies in the Indian private corporate sector. If one excludes the foreign sector from the latter category, relative expenditure on advertisement by TNCs would work out to be much higher. Though somewhat of an extreme case, Unilever Group in India offers a telling example of how TNCs build up their market power. For instance, Hindustan Lever Ltd. and its wholly owned subsidiary together reported an advertisement expenditure of about Rs. 125 crores during 1987 to 1990. See: Ibid., p. 66. No wonder even a long established company like Tata Oil Mills succumbed to the brand strength of the Levers. Looking in a different way we find from our database on company finances that out of the top 15 spenders on advertisement in 1990-91 as many as 11 were TNCs. A similar situation emerges if one looks at the top brands in the country. See: "India's Top Brands", A & M, October 13, 1995, pp. 42-64. In many consumer goods industries the fight for top market shares is now gradually turning into TNC versus TNC to the complete exclusion of domestic companies.

6. Though initially the argument may sound convincing, the long term burden of TNCs on a developing country's balance of payments can often be substantial. As we shall see later, the net direct impact of TNCs on the BOP front has been substantially negative. Indeed, much of the risk capital owned by TNCs in India has been created out of profits generated within the country. For instance, 93.53 per cent of the capital held by Unilever in its Indian subsidiary at the end of 1990 was created out of the profits generated in India. In spite of the

that would help improve quality of goods produced and lower production costs; all these associated developments leading to ending of inefficient, high cost, low quality private national monopolies. One needs to critically examine the truth and actual experience of the recent past. Has it happened that TNCs have indeed exported larger percentage of their own production ? One needs to go case by case. The empirical evidence, at least in India, does not seem to place the TNCs as earners of net foreign exchange.[7] Even in 1990-91, as is evident from the following Table - 1, TNCs in engineering and chemical industries -- which are regarded as high technology based and in which TNCs have an in-built advantage over domestic companies -- have proved to be heavy losers of foreign exchange. It can also be seen how payments for technology and dividend remittances have further worsened the already adverse trade balance.

Further, one would observe that TNCs are increasingly opting and restricting themselves to soft technology areas and are indeed avoiding capital investments.[8] More and more collaboration agreements and investment proposals are to assemble and market under brand names. As a consequence, the visibility of TNCs has become more pronounced but actual transfers have been very limited.

Table - 1

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repatriation of capital in 1978, 99.88 per cent of Colgate, USA's share in Colgate Palmolive India was on account of bonus shares issued to the former. Other notable cases in this respect are: Geoffrey Manners, Kirloskar Cummins, Bata, MICO, Chloride, Johnson & Johnson, Boots, Otis, Nestle, Union Carbide and English Electric. As time progresses dividend outgo too will increase in line with the increase in the foreign owned capital.

7. A number of studies have shown this to be the case. For instance, an empirical study of the operations of foreign subsidiaries in India observed that foreign subsidiaries have been net losers of foreign exchange. The study also highlighted the importance of raw materials in foreign exchange outflows on account of foreign subsidiaries. See: S.K. Goyal, Impact of Foreign Subsidiaries on India's Balance of Payments, Indian Institute of Public Administration, 1979. The study was prepared for the Joint CTC-ESCAP Unit, Bangkok. Another study showed how the TNC subsidiaries managed to show a somewhat better performance at exports and net foreign exchange earnings by resorting to exports of unrelated and bought-out items under the Export and Trading Houses route. It is interesting to find that garments, marine products, leather goods and such other items form part of the export basket of many Trading Houses. Can one ever associate Philips with export of marine products? It is, however, a reality in India. See: Pitou van Dijck & K.S. Chalapati rao, India's Trade Policy and the Export Performance of Industry, Indo-Dutch Studies on Development Alternatives No. 12, Sage, Delhi, 1994.

8. Besides the cases involving take overs and consolidation of control, one finds that implementation was quick in low technology, elite-oriented consumer goods industries. Notable among these is the liquor and beverages industry. It can easily be seen that international companies like Seagram, United Distilleries, International Distillers and Hiram Walker have already established their presence in India. The same is true of Kellogg's corn flakes, Perfetti's chewing gum, Kentucky's chicken, Sony and National Panasonic's televisions and garments of Pierre Cardin, Benetton, and Levi Strauss.

Net Earnings of Foreign Exchange
by Foreign Controlled Rupee Companies Manufacturing
Engineering and Chemical Products (1990-91)

Item	Amount (Rs. Cr.)
(1)	(2)
A.Earnings in Foreign Exchange	
Exports	1124.42
Other Earnings	10.64
Total Earnings	1135.06
B.Expenditure in Foreign Exchange	
Imports	1222.31
Other Expenditure in Foreign Exchange	174.45
- of which,	
(a) Dividends	81.12
(b) Royalty & Technical Fee	32.54
Total Expenditure	1396.76
C.Net Earnings (A-B)	-261.70

Based on data provided in "Finances of Foreign Controlled Rupee Companies, 1988-89 to 1990-91", *Reserve Bank of India Bulletin*, Vol. XLVIII, No. 11, November 1994, pp. 1395-1448. The data presented in the Table refers to 189 companies.

If one examines the nature of capital flows from abroad one also observes that in most developing countries a good part of the new investment is directed to gain management control over the already existing enterprises. These are through mergers and takeovers.[9] The privatisation drive inspired by the multilateral agencies is only increasing

9. It has been observed that new foreign investment proposals involving increase in foreign equity in existing companies accounted for more than one-fifth of the amount involved in implemented projects. Indeed, the share of equity hike cases in actual inflows under the automatic approval scheme was as high as 53.8 per cent of the total. Notable among the equity hike cases are: Colgate, ABB, 3M, Carrier, Hoechst, Cadbury, Corn Products Co., Coats Viyella, Nestle, Philips, Pepsi, Procter & Gamble, Castrol and Whirlpool. More importantly, many of these acquired the additional shares at prices far lower than the prevailing prices in the stock market. Even in other cases, it can be seen that the so-called new proposals were nothing but disguised takeovers as the existing manufacturing units/operations were transferred to the joint venture. Apart from the well publicised re-entry of Coca Cola on the foundations of Thums Up, mention can be made in this regard of the joint ventures between (i) Godrej and Procter & Gamble, (ii) Premier Automobiles & Peugot, (iii) Kirloskar & Snydergeneral Corp., (iv) Ballarpur Industries and Owens Illinois, and (v) public sector companies and TNCs like Caltex, Mobil and Shell. In a few other cases, the foreign collaborator had sold off in the existing ventures but immediately returned in another form through setting up of wholly owned subsidiaries with undisputed control. One can cite Turner Newall and Black & Decker which respectively terminated their collaboration with Hindustan Ferodo and Kulkarni Black & Decker to set up the new ventures. Unless these

the scope for such takeovers of public sector companies by the TNCs. Viewed differently, one also finds that the TNCs have become more active in stock exchanges of the developing countries. Indeed, in the Indian case, foreign portfolio investments far outstripped direct investments (See Table-2).

Table - 2

Foreign Investment Inflows since the Liberalisation of Industrial Policy

(US $ million)

		1991-92	1992-93	1993-94	1994-95# (Apr-Dec)
(1)	(2)	(3)	(4)	(5)	
A. Direct Investment		**150**	**341**	**620**	**756**
a.	RBI Automatic Route	-	42	89	81
b.	SIA/FIPB Routs	87	238	315	380
c.	NRIs (40% & 100%)	63	61	217	295
B. Portfolio Investment		**8**	**92**	**3493**	**3141**
a.	FIIs	-	1	1665	1195
b.	Euro Equities	-	86	1463	1726
c.	Offshore Funds & Others	8	5	365	220
Share in Inflows (%)					
A. Direct Investment		94.94	78.75	15.07	19.40
B. Portfolio Investment		5.06	21.25	84.93	80.60
Total (A+B)		158	433	4113	3897

\# Provisional.
Based on: India, Ministry of Finance, Economic Survey, 1994-95, Table 5.3, p. 90.

As for the experience of India one finds that stocks of major Indian corporations can be easily cornered and introduce speculative trading on the exchanges. Again, portfolio investments, with the regime of free convertibility, can hardly be taken as a basis for stable industrialisation of the country. The stock exchanges should, if the trends continue, become a major field for TNC operations. The simple reason for it is that investment in shares helps to sustain the highest degree of mobility.

For long the critics of TNCs used to insist that TNCs must be made to undertake exports. The critics, obviously, did not know what they were asking for. TNCs are

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factors are taken into account one will only get a distorted picture of the foreign investments in the new policy regime. See S.K. Goyal, et. al., Foreign Investment Approvals & Implementation Status: A Review (August 199 to December 1994), Institute for Studies in Industrial Development, Delhi, 1995. The report was submitted to the Ministry of Finance.

international business networks. Transnationals, therefore, have an inherent advantage in the area of international trade. For undertaking exports or imports one needs to have an international network for gathering business intelligence and a regular and reliable infrastructure. Entry into the field of international trade is not as open as is many a time assumed. Contrary to the general perception, international trade is not amenable to free competition. This realisation, one is afraid, has yet to come to policy makers in the developing countries. It is because of these realities that one finds that there is a high degree of concentration in imports, as also exports, when viewed from the identity of the trade actors. The number of the largest importers/exporters for a country of India's size, is not more than 200 or so.[10] Foreign trade is controlled by small numbers and there is domination by the TNCs or their associates.

The fact that policy makers in developing countries start asserting that TNCs must raise national exports, fits well with the strategy of the transnationals. It is obvious that no government would expect a corporation to be only engaged in exports. Those who export will have to be given the rights to import.[11] The logic is simple. In practice, however, it is seen that imports rise at a much higher pace than exports thereby making the balance of trade more unfavourable. This aspect has been dealt by many. We wish to underline the hard reality that imports and exports by TNCs are not what one would believe as foreign trade. TNC trade activities are essentially in the nature of inter-branch transactions. Most of the imports are sourced from their associates; and similarly, exports are made to TNC associates.[12] This is the unique advantage that TNCs have. Also, it is very rarely that one

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10. A study of India's imports during 1990-91 through the major entry points of Bombay, Calcutta, Madras and Delhi revealed that there were only about 1480 private sector importers who imported at least Rs. 1.00 crore worth of goods. Further, just 330 out of these accounted for almost two-thirds of the imports on account of private sector. There were indeed less than 150 importers with Rs. 10 crore or more of imports during the period. See: S.K. Goyal, et. al., India's Imports and Exports: Some Insights (An Analysis of Daily Trade Register Data), Institute for Studies in Industrial Development, Delhi, 1991. The report was submitted to the Ministry of Finance.

11. The case of Japanese investment in Thailand provides a telling example of the dependency that gets developed between a host developing country and the home country of the TNC investors.

> The data suggests that there is a strategic coupling between Japanese trade, DFI, capital transfer and technological transfer. It seems to be a coordinated economical penetration of Thailand by Japan. The interest of Japan and Japanese companies being central ... Thailand seems to be forced to export more and more, in which the terms are determined less and less by the needs of Thailand, or even by the demands of the world market, but instead by the needs of one country: Japan. In doing so the proceeds of industrial goods are nullified by the costs of the required imports to export, as well as by the associated capital outflow in the form of profit and dividends. Due to the Thailand's industrial structure it is becoming more dependent on Japan, but not Japan on Thailand. Thailand is for Japan and Japanese trade and industry...

See: Ed Aerts & Luuk Knippenberg, "Japanese Investments in Thailand: A Network of Dependent Relations?", paper presented at the Workshop Internationalization of National Economies: The Role of International Firms, organised by the Third World Centre, University of Nijmegen, and NICCOS, Nijmegen, during 18-20, December, 1991.

12. For instance, intra-firm flows represented 63 per cent of United States manufacturing industry imports. On the exports side, the corresponding share was about 40 per cent. See:

is able to grasp the full extent of transfer pricing under TNC operations.[13] Most developing countries do not have adequate legal framework or administrative capabilities to uncover the practice of transfer pricing or a variety of un-ethical trade practices. The unfortunate reality is that most policy makers in the developing countries are so busy and tired that they have little time to think and evolve an appropriate system for national policies. It comes easy to follow readymade policy prescriptions than enter into long debates.

We have made an attempt to underline -- more by way of illustration than claiming exhaustive critique -- the policies and assumptions in debates relating to TNCs. The attempt is directed to assert that there is need to have more active debate based on empirical data than what often happens to be the case. Developing countries need to learn from their experiences and evolve relevant policy framework best suited to their conditions.

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Charles-Albert Michalet, "International Trade and Multinational Enterprises Activities", paper presented at the Workshop Internationalization of National Economies: The Role of International Firms, organised by the Third World Centre, University of Nijmegen, and NICCOS, Nijmegen, during 18-20, December, 1991.

13. The study of India's imports also revealed that Mahindra Nissan was importing almost entirely from its Japanese partner Nissan. Similarly 85 per cent of imports of Kinetic Honda and Hero Honda were from Honda Motor Co., Japan. Rank Xerox along with its worldwide subsidiaries and associates was meeting 80 per cent of the import requirements of its Indian affiliate Modi Xerox. Philips India was getting nearly 60 per cent of its imports from its parent company Philips, Holland and its affiliates spread over Japan, Latin America, Europe, USA and Singapore. In such a situation could it be said that the prices will be decided by market forces or to the overall advantage of the TNC? See: S.K. Goyal, et. al., India's Imports and Exports, op. cit. Table 24.