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The operations of multi-national  
corporations and the export of  
capital and know-how

by  
V. Siddhartha

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1. The pattern of a new empire

The traditional, and continuing, focus of the study of international politics is the nation-state. This study has been supplemented by the study of alliances and international organisations. Comparatively few scholars have recognised the multi-(or trans- or supra-) national corporation (MNC for short) as an important actor in the arena of world politics. Whatever the reasons for this neglect in the past, we cannot go on ignoring MNCs and their role in world politics without adversely affecting the quality and realism of our models of the world system; for, as the US Deputy Under Secretary of State of Economic Affairs points out:<sup>2</sup>

"The outward surge of (American) corporate enterprise at its present magnitude has a powerful impact on a broad spectrum of policy issues; on the (US) balance of payments, on the international monetary system,...  
on the industrial structure of certain foreign countries  
of the extra territorial extension of national policies

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1. For an example of more expressions of similar sentiments, see: George Modelski, "the Promise of Geocentric Politics", World Politics, XXII, No. 4, (July 1970), 616-635, 619
  2. Nathaniel Samuels, "American Business and International Investment Flows", Department of State Bulletin, January, 12, 1970, 33-38, 33.

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and laws, on economic assistance to less developed countries, and a host of other problems of greater or lesser importance. It becomes difficult to know where business ends and foreign policy, economic and political begins." (My parentheses and emphasis).

But before we can talk of the MNC, we must know what kind of animal it is we are talking about. It is possible to define an MNC in several ways: by the extent of its direct investments outside the boundaries of the country of first registration; by the type of industry and by the extent to which its know-how is used in overseas countries. Generally, the investment criterion is used. The extent of overseas assets defining multi-nationality varies as between countries and as between different analysts. Thus 25% of assets overseas puts a corporation squarely in the 'multinational' group. All these definitions have their drawbacks. The point to notice is that the verbal definition is not important; the animal is. We recognise a giraffe when we see one; we would be hard put to define one.

The power and influence of MNCs stem primarily from their size and global reach.

#### 1.1 The size of MNCs

Many individual MNCs produce goods and services whose total value exceeds the Gross National Product (GNP) of many fair-sized countries. Table 1 compares the GNPs of a sample

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of Latin American countries with the gross scales of some large MNCs.

Table 1

Country.	GNP US \$ million	MNC	Gross Sales US \$ million
Argentina	19300	General Motors	24000
Venezuela	9200	Standard Oil	15000
Columbia	6200	General Electric	7000
Peru	4900	Unilever	6000
Chile	4500	I.T & T	5400
Uruguay	1400	I.C.I	3300
Ecuador	1300	Hitachi	2850
Boliva plus )	1200	Montecatini	2400
Paraguay )			

Data sources: World Bank Atlas (1968) and Fortune Magazine (1970) After Geoffrey Oldham at the University of Sussex.

As Leo Model points out:

".... on the basis of the gross value of their output, US enterprises abroad in the agregate comprise the third largest country (if such a term can be used to designate these companies) in the world - with a gross product greater than that of any country except the United States and the Soviet Union"<sup>3</sup>

\*Although I quote these figures because they were readily available to me, the emphasis of Latin American countries is only partly accidental. I submit that we in India have paid far too little attention to Latin America and that a deliberate bias towards that important region of the Third World would not, I think, be out of place.

3. Leo Model, "The Politics of Private Foreign Investment" in Foreign Affairs, June, 1967, P.641.

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I, for one, would not be averse to using the term 'country' to designate the aggregate of multi-national corporations (MNCs) - at least the largest of them; for, as I intend to show in the succeeding sections, a growing number of these corporations have the power (and use it) to pursue their own interests with a freedom that would be the envy of many a rich nation, let alone a poor one.

Since the end of the second world-war, colonialism has been replaced by highly organised international capitalism as the chief agent of economic domination and imperialism. The operational instrument of international capitalism is the MNC.

MNCs sustain (and are, in turn, sustained by) the high levels of consumptive affluence in the developed countries, most particularly in the US. Thus, with 6% of the world's population, the proportions of the world's raw material output required by the US to sustain its level of affluence are: 33% of the world's production of bauxite, 40% of the nickel and tin, 36% chrome, 14% of the iron and lead, 28% of the potash and so on.<sup>4</sup> If the rest of the world consumed steel at the same rate (per capita) as the US, the world's known reserves of iron ore would last for less than a fortnight.

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4. Keith Buchanan, "The Geography of Empire: Part three", in The Spokesman, late 1971.

### 1.2. The global reach of MNCs

To feed (and,, in turn, be fed by) these truly Babylonian consumption levels, the world's MNCs have to have the freedom of access to the natural and man-made resources of the entire globe. The MNC is a complex entity; it penetrates and manipulates world trading patterns in such an organised way as to safeguard and extend this essential freedom of access.

The global reach of MNCs is a pre-condition for their continued existence. To illustrate this reach with US figures : US direct foreign investment (DFI) in 1969 stood at around \$ 70 billion. Of this, almost two-thirds was in developed countries: Canada and Europe \$ 21 billion each; Japan, Australia and New Zealand accounted for about \$ 5 billion. 20% of all investments were in Latin America and 2.5% in the Middle-East.

Because MNC investment is skewed in favour of the developed world,<sup>+</sup> many people think that global domination by MNCs is really only a rich man's problem. The importance of Third World investments becomes apparent when we consider the industrial sectors in which the investments have taken place and the volume of earnings rather than the volume of

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\* This is merely illustrative. Nevertheless, it is more than representative; for, US MNCs are the biggest and most powerful ones. Their operations tend to dominate the scene. Thus, between 1960 & 1967, US direct foreign investment (DFI) in Latin America amounted to \$ 4 billion. All non-US DFI together came to only \$ 2 billion.

\*\* At the end of 1966, for example, the book value of DFI in the world was \$ 90 billion. Out of this, some \$ 30 billion was in the less-developed countries (LDCs)

investments. It turns out that the extractive industries (Mining & Smelting, Petroleum, Plantation) are over-represented in LDCs while the manufacturing sector is underrepresented. As for earnings, the 2.5% of US DFI in the Middle-East generated 14% of total earnings from US DFI overseas. Whereas LDCs account for around a third of the world's total book value of DFI, these investments generate half the total earnings of all DFI. The proportion of total earnings accounted by the nations of all the White North is considerably below their share of overseas investments.<sup>5</sup>

Significantly, investment in the Third World is increasing. Between 1950 and 1960, North American DFI in Latin America nearly doubled from £ 4.4 billion to £/ 8.4 billion. Between 1960 to 1968, German investment in Latin America increased by over four times, from £ 27 million to £ 112 million (34% of German DFI is in LDCs) French DFI in the same region over the same period registered a six-fold increase from £ 10 million to £ 60 million. 25% of all Japanese DFI is in Latin America, 19% in S.E. Asia.

On earnings from these increasing investments  
Baran and Sweezy comment:

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6. Paul A Baran and Paul M. Sweezy, "Notes on the theory of Imperialism" reprinted in K.T. Fann and Donald C. Hodges (eds.), Readings in US Imperialism (Boston, Mass, 1971, p.77)

"From 1950 through 1961, United States corporations were able to expand their direct foreign investments by \$ 27.5 billion while at the same time taking in as income \$ 9.5 billion more than they sent out as capital. Foreign investment, it seems, far from being a means of developing underdeveloped countries, is a most efficient device for transferring wealth from poorer to richer countries while at the same time enabling the richer to expand their control over the economics of the poorer".

Thus the pattern begins to emerge of a new empire of a new "country" - the condensation of the world's MNCs. In simple terms, high profits and raw materials from investments in the third world furnish the inputs necessary for the economic colonisation of the white north and areas which are at present less profitable, such as parts of Africa and Oceania.

2. MNCs and national sovereignty; the conflict in the developed world.

The MNCs and its role in the developed world became an 'in' subject during the mid-sixties; the 'menace' of corporate expansion caught the popular imagination with the publication of the book, The American Challenge, by J.J. Servan-Schreiber in 1967. Much has been written ~~xxxxx~~ since that time about the conflict between the goals of the MNC and the goals, economic and political, of the nation-state. It is not my purpose here to rehearse all the arguments and contentions nor even to enumerate them. I shall merely abstract what appear to me to be the major conflicts around which the others cluster, either as causes or as effects.

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### 2.1. MNCs and national economic policy.

A few months ago the contents of a top-secret report of the Canadian government was leaked. The report was prepared by a task force on foreign ownership in Canadian industry headed by the Canadian Minister for Revenue, Mr. Herb Gray. The report (in its published version) makes two points : the high degree of foreign ownership in Canada works against the Governments' ability of carry out "a policy of full employment because the key decisions are being made in corporate head offices abroad with an eye to profits not to employment and progress in Canada; and if Canada continues down this road it will become impossible to retain or develop a distinctive Canadian culture". This statement epitomises a conflict that is increasingly being resolved in favour of the MNC.

In pre-MNC days, the growth of the Big Corporation in Europe and North America was accompanied by the growth of the Big Union and Big Government. These provide the counterveiling power to the corporations. In Contrast, the advent and growth of the MNC has not been accompanied by any organisational or institutional device to provide the counterveiling power. MNCs are thus able to follow a policy of global 'optimisation' (or 'Vietnamisation' if you really wish to be unkind'.) with considerable freedom and are able to detour around national economic policies. There are numerous examples of the exercise of this power. I shall mention only one recent happening in Britain. A prolonged strike

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at one (or all, I cannot remember) of the Ford Plants in Britain caused Henry Ford himself to intervene. During his visit to Britain he was invited by the British Prime Minister for a meal and a chat. (Is it not significant that the head of the Government of one of the world's richest nations invites the chief executive of a foreign corporation to discuss a matter of corporate policy?) The strike was resolved but the management recommended that a large new engine plant that Ford was planning should be built not in Britain but in Germany. Thus the British worker was denied the opportunity of employment while his somewhat more docile (or more disciplined, depending on your viewpoint) German counterpart gained. Neither the British nor the German Government had any say in the matter of an investment that would have substantial economic consequences!

The growth of MNCs, appears inevitable notwithstanding the fact that their policies are often in conflict with national objectives. The Gray report (mentioned above) warns of the possibility that such enterprises could use their power to play off the government of one country against that of another. "It may well be", adds Gray, "that co-operation between governments will be needed in the long run if this power is to be contained".

The MNC may have to be matched by not only inter-governmental co-operation but also by the MNU - the multi-national trade-union.

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## 2.2 Technological imperatives and the suppression of the individual

The ultimate imperialism is of course that which suppresses the individual against his will and consent. Super-scribing all the conflicts between the policies of MNCs. and national policies is the very real and fundamental conflict between (what may be called) the imperatives of technology and the needs of the individual. The seeds of this conflict were sown at the time of the industrial revolution; and developed nations are now reaping a rather bitter harvest. Mass production and advanced technology demand centralised control and direction and above all, stability. On the other hand, as the quality of life becomes a central concern of the individual, he demands that the corporate, communal, decisions which inevitably affect his life be made as proximate to his personal, individual interests. The two demands are basically irreconcilable. The conflict has been brought to a head in Britain where, ironically, the seeds of this conflict were first sown. The desire of the Establishment and business interests to enter the EEC in an expression of the thrust of the technological imperative. The wide-spread opposition to entry is the expression of the demand of the individual. At this time, it is an open question whether the MNC or the individual will triumph. The odds are on the MNC.

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\* One out of every nine workers in Scotland is employed in a US-owned enterprise; over two-fifths of Britain's output of computers and over half her cars in the mid-sixties came out of the plants of US-owned MNCs.

### 3. MNCs and the export of know-how to the less-developed countries

Developing countries depend almost exclusively on imported technology for their industrialisation. They can, in fact, do nothing else since their indigenous capacity to innovate is either very meagre or non-existent. The imported technologies have been supplied by MNCs, for it is they who generate and control the technology - the know-how. The disparity between MNCs and LDCs in the capacity to generate new technologies may be gauged by noting that most MNCs spend an average of 5% of their gross sales on Research and Development (R & D), most of it on mission-oriented, applied research. By contrast, developing countries spend between 0.2% and 0.5% of their GNPs on R&D, much of it on basic or non-mission-oriented research that results in little, if any, indigenous technological capability\*. Using these percentages on the figures of Table 1, it is apparent that the R&D budgets of the large MNCs individually exceed the R&D spending of all Latin American countries put together!

It is not my purpose to enumerate the consequences for developing countries of this dependence on MNC-supplied technology; these are well-known and will be discussed by other contributors to the seminar. Here I shall try to show

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\* China is an exception. So too is India, albeit to a lesser extent.

\*\*The consequences include :dualist economies; low labour utilisation; monopoly rents for 'transferred technology' the creation of enclaves of Westernised elites with developed country consumption patterns, etc.

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how the MNC can use its enormous bargaining power to its advantage and undermine, or render ineffective, planning strategies (where these exist even on paper) of developing countries.

3.1. The source of the bargaining power of MNCs.

I have already indicated how the MNC is a powerhouse of technological generation with a capacity far in excess of that possessed by developing countries. But there are many MNCs and, a priori, it may be thought that there is at least an oligopoly, if not a free market, in the supply of technology. In principle there is, but the buyer must have the knowledge to choose between alternative suppliers. But if he had enough knowledge about the technology to make a satisfactory rational choice, he is likely not to need to shop abroad for the technology (embodied knowledge): This picture is an oversimplification, of course, but it does bring out a peculiarity in the 'knowledge market'. Knowledge about knowledge and knowledge can amount to the same thing-and often do. The source of the bargaining power of MNCs can be traced to this peculiarity. The MNC knows that the LDC does not know and that it (the LDC) cannot find out without the MNC's help.

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\* In this context, I am lumping the local (i.e. LDC) private sector with the MNC. Generally, the local private sector has no cause to bargain with an MNC. This sector is simply a local agent of international capitalism, aligned with the MNC against the government of the LDC.

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3.2. Elements in the bargaining game between  
MNCs and LDCs.

A non-autarchic path of development implies the involvement of foreign technology inputs. So long as these inputs are provided by the MNC, so long will there be bargaining between the LDC and the MNC. It is entirely outside the scope of this paper to discuss all the strategies of bargaining; only the essential elements can be listed in this a brief, almost telegraphic, form. Table II attempts this.

4. Conclusions

It is the business of scientists, natural and social, to solve problems and not to be seen merely grappling with them, however ferociously. I have tried in this note to sketch the pattern of a new economic empire, consolidated and expanded by the multi-national corporation. What, one may ask, are the methods by which one may combat this element of neo-imperialism? Here, I confess, I fail as a scientist. I do not have detailed solutions. Only some rather banal generalities. I shall set these out for what they are worth.

1. MNCs are growing both in size and in power. Technological imperatives backed by powerful bourgeois elites drive them on. There is little, if any, countervailing power in the hands of the people affected. Developing trans-national institutions, such as multi-national trade unions, and inter-governmental co-operation can provide some of the countervailing power.

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2. So long as the less-developed countries do not improve their bargaining power vis-a-vis the MNCs, they will continue to be at a considerable disadvantage in respect of buying the technology that they need. The essence of Science and Technology policy in developing countries should be to develop the infrastructure (I regret the jargon but it seems unavoidable!) and institutional means to improve their bargaining power. It should be recognized though, that this bargaining can rarely, if ever, be symmetric as between MNC and LDC; for if it were to become symmetric, the LDC would not be an LDC but a developed, probably imperial, country!
  
3. Less-developed countries which are short of technology but not of foreign exchange should invest in the developed countries and form subsidiaries of their own in the developed countries. This is a somewhat maverick suggestion but prolonged thought will reveal it to be not such an absurd idea after all.

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Tabel II: Element In bargaining between MNC and LDC

(After Robing Murray at the Institute of Development Studies, University of Sussex)

Threat or action by LDC	Response by MNC
1. Limit dividend remittance in proportion to firms equity contribution.	1. Threat of not investing/expanding.
2. Specify levels of equity investment.	2. Equity contribution in kind.
3. Agreements with other LDCs (royalties tax etc.)	3. Open account inventory financing.
4. Specify gearing ratios.	4. Finance from counterpart funds/connected banks/tied aid.
5. Limit royalty rates.	5. Transfer accounting.
6. Import duties and controls: programme of import substitution.	6. Expatriate funds through transfer pricing on imports/export; change timing of payment of affiliate debts; fees and royalties change; change accounting procedures; swop funds with local subsidiary of another foreign company.
7. Establish control over export price; market through public sector abroad.	7. Persuade public and private credit suppliers to insists on relaxation of controls pressure on World Bank, Aid agencies; pressure of international law against contract breakings.
8. Special foreign exchange (F.E.) rates for company.	8. Pressure of international law against contract breakings.
9. Ration foreign exchange; link f.e. availability to export earnings; auction f.e. certificates.	9. Selective-isation in non-key areas.
10. Restrict immigration of skilled technicians; limit on pay; programme of isation.	10. Provide perks to personnel, secure loyalty; contracts only with anti-defection clauses.
11. Secure joint venture between government and company. (so-called joint-sector)	11. Direct payment into foreign bank accounts.
12. Make export quotas dependent on internal expansion.	12. Ensure management contracts of joint-venture; with hold key technologies by providing packaged inputs.
13. Nationalisation.	13. Anti-nationalisation measures; cut-off markets; withdraw labour supplies stop supply of key intermediate inputs (components spares etc.), withdraw shipping services arrange boycott by third countries, other foreign-controlled firms.
14. 'Artificial' competition by inviting other companies/countries to form linked industries providing inputs/markets, etc.	14. International pressure from home government aid agencies, UN.ect