CEPAL
Review

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UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA
SANTIAGO, CHILE / AUGUST 1981

CEPAL
Review

Number 14 August 1981

CONTENTS

CEPAL REVIEW
August 1981

The East, the South and the transnational corporations

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Technological developments in transport and communications have made possible the centrally-managed internationalization of production and marketing of goods and services: a system which increasingly dominates the international economic scene. This *internationalization* across borders has been accompanied by *internalization* within corporate boundaries: a significant portion of international trade is today intra-firm trade, between branches of a single large corporation.

First to exploit the advantages of this mode of production and marketing were the transnational corporations based in the developed market economy countries (the 'West'), which operated freely in the West and South but not at all in the centrally-planned economies of the East. The economic importance of these enterprises has given rise to many studies which describe their approaches and forms of operation. Much less is known, however, of the processes whereby the socialist countries and developing countries, each in their own way, have also recently started to internationalize their production and marketing. In so doing, the East has somewhat opened up to transnational corporations, while the South has created some competition to these, and in this sense has closed slightly to their influence, although overall their presence has not diminished. Considerable empirical research is needed to ascertain the exact dimension of these developments, but enough is known to formulate at least some suggestions to developing countries which might be useful in charting their policies. To this end, the present article surveys recent developments in the East and South, and then seeks to draw some significant conclusions.

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I

The East

Efforts in the East to internationalize the production and marketing of goods and services have given rise to a number of activities of socialist ventures in the markets of the West and to the creation of international enterprise organizations (IEOs) and socialist joint enterprises (SJEs). In the process, various modalities of East-West industrial co-operation have been developed, including tripartite arrangements with countries in the South.

Very recent data are not available on socialist ventures in the markets of the West, but 312 such ventures with US$ 603 million in fixed assets were identified as of November 1977.[1] The leading home countries were the USSR (84 ventures), Poland (65) and Hungary (58), while the leading host countries were the Federal Republic of Germany (54), the United Kingdom (48) and France (42). The principal activities of the ventures were marketing (159 ventures with US$ 40 million in fixed assets), marketing and distribution (19 with, US$ 57 million), marketing and services (31 with US$ 62 million), financial services (23 with US$ 340 million) and transport services (39 with US$ 14 million). Only 8 ventures (with assets of US$ 36 million) did assembly or manufacturing in addition to marketing, and only 5 (with assets of US$ 25 million) were involved to the extraction and processing of raw materials.

International enterprise organizations (IEOs) are at present the major form of enterprise-level integration of the socialist countries. They are set up by independent enterprises of a specific industry, or subsidiaries, or even enterprises with a specific product line. They can include research institutions and even administrative divisions of an industry ministry. Their objectives are to promote co-operation and integration in specific industries among socialist countries, and to carry out common activities in research, production services and trade. The first IEO was established in shipping in 1970, and by 1976 there were five

[1]United Nations, Centre on Transnational Corporations, *Transnational Corporations in World Development: A Re-examination*, New York, 1978. See tables III-70 and III-71.

IEOs in operation. They operate as rather loose associations of independent partners who exchange information about market conditions, research accomplishments and production goals.

Socialist joint enterprises (SJEs), on the other hand, are jointly-owned companies with participants from two or more socialist countries. The first SJE, "Haldex", was established in 1959 by Poland and Hungary, to apply Hungarian technology to the processing of waste from coal-mine dumps in Poland. By 1976, five SJEs were in operation: three in mining and mineral processing, one in transportation and one in manufacturing (textiles);[2] since then, a sixth enterprise, in transportation, has been established. The textile enterprise "Friendship", set up by Poland and the German Democratic Republic in 1972, is the only one in the consumer goods area. Five of the six are bilateral and one is multilateral. The latter, established in 1978 by an intergovernmental agreement between Bulgaria, Hungary, the USSR and Czechoslovakia, is called "Interlichter", and it transports goods between the ports on the Danube and those on the Black Sea and the Mediterranean.

SJEs act as independent corporations which control and manage the assets contributed by their members; they are jointly managed organizations whose participants share in the profits or other forms of appreciation of the resources invested. They have a varied sphere of activity, contributing in particular to close co-operation and specialization in production activities, particularly in the services, chemical and engineering industries and in the extraction and preliminary processing of raw materials. The important feature is that they participate in the development and integration of their member countries and are able to function in a sustained and efficient manner.

A typical example of a successful SJE is "Haldex", mentioned earlier, which between 1970 and 1980 produced 3.1 million tons of coal by processing waste.[3] Except for the first two years, the company has worked at a profit. It now has seven plants and employs over 1 000 workers. The Hungarian patent is being used in the United Kingdom, Belgium and Turkey, and many countries (including the USSR and the USA) have sent samples of their coal-mine wastes to "Haldex" to determine if its technology is applicable.

Socialist joint enterprises seem likely to assume increased functions and responsibilities in the coming years. They can offer bigger and more varied supply and are able to use large-scale marketing strategies and specific trademarks: all this makes for competitiveness in the West and constitutes an additional incentive for the creation of more SJEs. For instance, one of the objectives of "Erdenet", established by the USSR and Mongolia in 1973 for the joint extraction of copper and other minerals, was to provide better access to Western markets for Mongolian products. Up to the present time, however, exports of SJEs to the West have been marginal.

Still, no SJEs are set up exclusively to export to the West, the specialization and division of labour in the socialist countries being the primary consideration in their establishment. With the State as sole owner, investment funds can always be optimally allocated for economies of scale, and the lesser gravitation of SJEs, as compared to transnational corporations in the West, is not due to lack of interest or lower level of economic development, but to the fact that in the centrally-planned economies similar advantages can be derived from alternatives less integrated types of international economic co-operation.[4]

The establishment of SJEs, despite these advantages, faces a number of practical difficulties arising from the different laws and systems in the various countries as to legal status, accounting, control measures and determination of efficiency and profits. This is why SJEs almost always start as bilateral undertakings. Given the diversified needs and resources of the participating countries, fuller integration will require the abandonment of a perfectly

[2] D.A. Arnold, *International Economic Organizations of Socialist Countries Economic Co-operation among CMEA Member Countries*, Vol. I, 1976, p. 95.

[3] Vratislav Valek, "Joint Enterprises of CMEA Member States", *Nedelna Pravda*, 29 February 1980, p. 5.

[4] Leon Zurawicki, *Multinational Enterprises in the West and the East*, Sijthoff and Noordhoff, the Netherlands, 1979.

symmetrical structure of the SJE and the institution of a system of unequal shares.[5]

Let us now turn to East-West industrial co-operation. This represents the most significant opening of the East to the internationalization of the production and marketing of goods and services, and it has expanded both quantitatively and qualitatively during the last decade: the size of the projects has increased, and new and more complex forms of operation —such as joint ventures— have been utilized. Perceived mutual benefits account for this expansion. The East seeks increased technology inflows, foreign exchange and access to Western markets, while Western enterprises seek new markets, trained manpower and lower production costs. Both seek to benefit from the advantages in efficiency resulting from the internationalization of research, production and marketing, in a manner compatible with their different economic and social systems.

Industrial co-operation has taken four main forms:[6] supply of plants and equipment, with payment in the resultant products; co-operation in production and marketing; project co-operation, and joint ventures.

The supply of plants and equipment usually involves complete plants and related services, to be paid for in products made by the plants or raw materials extracted with the help of the equipment. Related services may include assembling the plants and putting them into operation, as well as training of personnel. Co-operation may also include exchange of information, joint research and joint marketing. Such co-operation is also in the interest of the supplier, who is going to be paid with the products of the plant.

A 1977 survey showed that although only 20% of industrial co-operation contracts were of this type, many were large-scale, long-term compensation agreements which in value terms exceeded 80% of the total industrial co-operation for several countries. Such agreements offer economic advantages to both parties much beyond the traditional types of barter agreement. To the East, they provide stable contract terms (5-10 years normally, even up to 20 in some cases) that fit in well with 5-year plans and long-term programmes of economic development; furthermore, they often provide Eastern firms with extra-industrial capacity which increases their export potential. To the West, they open new export prospects and assure long-term supplies of raw materials and energy for productive activities.

The first industrial co-operation agreement was signed in 1968 and provided for the supply of Soviet natural gas to Austria in exchange for Austrian steel pipes, equipment, and the construction of a gas pipeline in the USSR. The second was signed in 1969 and provided for the USSR to by forestry equipment from Japan and pay for it with forest products. Agreements similar to the one with Austria were later signed with Italy, France and the Federal Republic of Germany. Later agreements include the construction of processing plants (sulphur, caustic soda, potassium, nitrates, fertilizers, petrochemicals, etc.) and mineral complexes (iron, steel, aluminium, copper), and involve the majority of the socialist countries and of the industrial countries of the West. Recent statistics show that the total value of this type of contracts signed between 1968 and 1978 amounted to US$ 16 750 million. The main areas of co-operation were chemical products (US$ 8 000 million), gas (US$ 3 500 million) ferrous metals (US$ 2 500 million) coal (US$ 1 250 million) and timber and wood pulp (US$ 750 million).[7] An itemized listing of transactions of this type between the East and the West can be found in a report submitted to the United States Congress.[8] At present under negotiation is the most ambitious project yet: a natural gas pipeline from Siberia to Western Europe that would involve loans to the USSR of US$ 10 to US$ 15 billion to cover construction costs and the provision of Western technology and equipment, in return for the supply of 40

[5]*Ibid.*

[6]Economic Commission for Europe, Joint UNCTC/ECE Unit, *East-West Industrial Co-operation* (United Nations Publication, Sales No. E. 79. IO. E. 25, New York, 1979).

[7]Economic Commission for Europe, Joint UNCTC/ECE Unit, A *Quantitative Survey of the Development of East-West Industrial Co-operation*, TRADE/R. 408, 19 September 1980.

[8]"East European Economies Post-Helsinki", a compendium of papers submitted to the Joint Economic Committee of the US Congress, US Government Printing Office, Washington, 1977.

billion cubic metres of natural gas per year as from 1986. The project would increase the percentage of USSR gas used in Western Europe from 9% to 25% of the region's total consumption.[9]

As may be seen, the majority of the compensation agreements thus far have been in the energy sector and in the extractive and processing sector, but the manufacturing sector may account for an increasing share in coming years, as energy resources become depleted and the capital intensity of the sector rises. Socialist policy-makers have repeatedly stressed their preference for co-operation in sectors involving a high degree of processing, such as manufacturing, which also provides the access to foreign technology and third markets which the socialist countries are particularly interested in obtaining. Estimates of the number of contracts in the manufacturing area are only available for Austria, Czechoslovakia, Hungary, Sweden and Switzerland, and even these data are not easily comparable. Still, extrapolating from Hungarian data, an estimate of 1 000 contracts can be made for the total of East-West agreements in manufacturing.[10] The USSR's draft plan for 1984-1988 does not seem to indicate very active Soviet participation in agreements of this type however.

The second type of co-operation is that related with production and marketing, ranging from simple subcontracting to co-production and sophisticated specialization. In this type of agreement, both parties seek to utilize their competitive advantages, increase the scale of operations, use more fully existing capacities and ensure adequate market penetration. Technical assistance and credits are often included, but not risk or profit sharing. Although accounting for only 3% of East-West trade, agreements of this type cover 9% of East-West trade in machinery.[11]

Project co-operation, the third type, can refer either to joint tendering or tripartite projects. Joint tendering consists of East-West co-operation for the delivery of plants or production lines and the construction of infrastructure to a third country; it may also involve risk and profit sharing arrangements. Its advantages lie in both cost and capacity utilization considerations. Tripartite projects also involve a third party, but this party is not merely the recipient of goods and services, but an active participant which may, for example, execute civil engineering works or supply certain kinds of equipment.

Joint ventures, the fourth type of industrial co-operation, involve joint contribution of assets, joint management, and sharing of profits and risks according to a previously agreed formula. There are different types of joint ventures in different regions. Those located in East European countries are a relatively new phenomenon, and in fact, to date only Hungary, Poland and Romania allow a limited form of foreign investment. Technology inflows and access to Western markets are the primary consideration for the East; Western enterprises see joint ventures primarily as a device for penetrating the market of the recipient countries, but also as a way of reducing cost. As of mid-1978, there were nine joint ventures in Romania, three in Hungary and none in Poland. In contrast, Yugoslavia had more than 150 contracts, with foreign participation amounting to US$ 400 million. Joint ventures located in the West considerably outnumber those in the East: by mid-1978 they numbered 239 (excluding banks and other financial institutions), established in the West by seven socialist countries.[12]

Finally, there are also joint ventures established in developing countries through tripartite arrangements. Their number is small but increasing, most of them being in the Maghreb and the Near East (over 50%). The percentage in Latin America decreased from 10.5% in 1965-1975 to 5.7% in 1976-1979,[13] but the continued growth of East-West industrial co-operation, may result in an increase in East-South economic relations. The stress put in the East on the satisfaction of the basic needs of a relatively poor mass consumer may be of interest to

[9]*Time Magazine*, 15 February 1981, page 71.

[10]Economic Commission for Europe, Joint UNCTC/ECE Unit, *A Quantitative..., op. cit.*

[11]Economic Commission for Europe, Joint UNCTC/ECE Unit, *East-West..., op. cit.*

[12]*Ibid.*

[13]Economic Commission for Europe, Joint UNCTC/ECE Unit, *A Quantitative..., op. cit.*

developing countries striving to satisfy their peoples' basic needs by a more even distribution of their national incomes; and inflows of Western technology might in their turn enhance exports from the East to the South. The developing countries, for their part, may well find that consumers in the East provide a more accessible market for their industrial products than the more sophisticated consumers in the West, and here again, Western technology might help the abundant and less expensive labour in the South to produce the consumer goods which the East is now demanding in increasing amounts.

II

The South

Two developments characterize efforts in the South towards the internationalization of production and marketing: the creation of State enterprises with international activities and the expansion abroad of Third World private firms. Both provide a certain degree of countervailing power *vis-à-vis* TNCs and thus contribute to the small 'closing of the door' to which we referred in the introduction. In this section we shall first discuss the general nature of these two developments, and then briefly survey their development throughout the Third World, with particular emphasis on the experience in Latin America.

Third World State-owned enterprises have been expanding abroad, but this is not the main reason for their establishment. Analysis of the reasons why they were set up shows that such enterprises can have effects on the internationalization of production independently of any expansion abroad. Modern State enterprises have outgrown the public utilities field and range over a wide spectrum of roles and activities. They have been used as fiscal agents, to sell at high monopoly prices, by at low monopsony prices, or subsidize the sale of basic commodities at reduced prices: all functions which a ministry could handle, but probably less efficiently. They have also served to carry out needed activities which the private sector could not or would not carry out, or which the country did not want foreign-owned companies to control. They have been used to improve terms of trade by acting as sole agents for the country in international trade, or to guard balance-of-payments equilibrium by representing their country in bilateral trade agreements. They have also served as agents of national industrial policy, setting up industries in backward areas, helping obsolete industries either to survive or die gently, softening both structural and cyclical changes, and limiting price rises in sensitive products or services. Numerous examples can be provided of enterprises in both industrialized and Third World countries which carry out these various functions.[14]

Some of the probable —but not yet demonstrated— international implications of the expansion of State-owned enterprises are: a greater emphasis on purchases from local suppliers; greater efforts to increase exports, if necessary by selling at reduced prices; reluctance to lay off workers, even in periods of economic downturn; a sales policy in which long-term national objectives —such as reduced sales of non-renewable resources— may outweigh short-term profits; reluctance to invest in facilities abroad or to adapt products to foreign tastes because of political sensitivities at home; a greater propensity to establish links with other State-owned enterprises, rather than with TNCs; a preference for longer-term agreements and cartelization rather than international vertical integration; and a tendency to seek new types of agreements with TNCs, be it to reach distant markets, secure sophisticated technology, or even to increase their autonomy *vis-à-vis* there own home governments. The decisions of these enterprises, it must be kept in mind, may be influenced by a number of

[14] Raymond Vernon, "The International Aspects of State-Owned Enterprises", *Journal of International Business Studies*, Winter 1979, AIB/Rutgers University.

considerations: a board of directors with members of different political persuasions and with the short tenures characteristic of political life, rivalries with government ministers and bureaus for greater independence, and conflicts between economic and political considerations.

Latin American State multinationals represent the most deliberate effort to acquire bargaining power *vis-à-vis* TNCs through regional joint ventures. They usually operate in strategic areas, such as the export of basic commodities, the development of transport infrastructure or the purchase of strategic inputs. Many arise from bilateral arrangements for the joint exploitation of natural resources, building and operating international pipelines, joint administration of railroads and interconnexion of electrical systems. By joining forces, the partners in the venture can overcome financial or marketing barriers to entry into oligopolistic sectors or activities where economies of scale are significant. Occasionally, some Latin American joint ventures have invited a third firm, from an industrialized country, to participate in order to provide needed new technology or better access to external markets. If such partners are properly selected, all can benefit from the arrangements. TNCs have not been slow to recognize the opportunities offered by these and other novel arrangements.

A recent study illustrates the increasing importance of State enterprises in Latin America. The share of public ownership in the local economy of Venezuela reached 60% in 1975, while it was 32% in Peru (1975) and 35% in Brazil (1974). The corresponding figures for Japan (10% in 1960), the United States (15% in 1960) and the United Kingdom (25% in 1962), show the greater importance of State enterprises in the developing countries. The study also identifies important similarities and differences between State enterprises and TNCs. First, both have large operations and a high degree of monopoly power and leadership in the markets in which they operate (in 1970 the government share of national investment was 52% in Brazil and 35% in Mexico); the investment is concentrated in a small number of strategic sectors (e.g., in Mexico for 1971-1976, 46% went into oil and petrochemicals, 32% into electricity generation and 13% into steel); the absolute value of the investments is often comparable to those of TNCs (PEMEX plans to invest US$ 15 billion in 1977-1982). Secondly, both State enterprises and TNCs tend to participate in relatively high-technology dynamic sectors, where mere ownership is not enough to guarantee control. A large percentage of the goods and services involved in the State enterprise investment must be imported (60% in the case of PEMEX, 80 to 90% in relatively less developed countries), which often means that total TNC business through the sale of specialized goods and services can match or even exceed the corresponding figures for all wholly-owned foreign subsidiaries in the remaining industrial sector (so that these figures could, therefore, grossly underestimate the extent of TNC involvement). The *ad hoc* nature of the negotiations and agreements between State enterprises and TNCs represents a field where much research is needed.[15]

Latin American integration efforts have thus far had only a marginal effect in promoting intra-regional joint ventures. Evidence seems to show that TNCs have been the main beneficiaries of integration to date.[16] SELA seems to be succeeding in setting up a few joint ventures through decentralized 'action committees' in various countries, with strong tutelage or participation by the public sector.

In general, the main motivation behind the expansion abroad of Third World firms has much in common with certain basic motivations of TNCs: the search for new markets and for assured sources of raw materials. Third World firms, however, may have more specific motives: in countries with strict controls of foreign exchange, expansion abroad provides a practical way to accumulate needed foreign exchange in other countries; in countries with small markets, or in those which restrict growth to certain permissible levels of production, it may be the only way to continued growth. Decreased risk from diversification across bor-

[15]Constantine Vaitsos, *State Enterprises and Transnationals in Latin America*, United Nations, Centre on Transnational Corporations (forthcoming).

[16]United Nations, Centre on Transnational Corporations, "Regional Integration and the Bargaining Capacity of Developing Countries", New York, 1980.

ders, and preservation of export markets threatened by protective measures to foster local production, may also be strong incentives. Ethnic reasons may also play a role in certain cases.

What characteristics of these Third World firms allow them to compete with the much larger transnational corporations? Third World firms thrive in industries or segments of the market where cost of production is high and economies of scale are not so significant as to preclude small scale operations; TNCs prefer to produce goods in which their oligopolistic position prevents over-intense price competition. Third World firms are also more amenable to entering foreign markets by setting up joint ventures with local partners, either because of their greater awareness of local political sensitivities or because of home country restrictions on the export of capital. In addition, frequently subsidiaries of Third World firms soon start operating on their own, and do not maintain the close ties to headquarters that make TNC subsidiaries permanent agents of a global strategy. Superior ability to adapt technology to small-scale production and to transmit the acquired experience, faster investment decisions, and the ability to save on management and engineering personnel costs are also frequently mentioned as likely advantages of Third World firms. The reduced asymmetry between investor and host country, the greater receptivity to local participation in the ventures, and the lesser emphasis on global optimization, however, seem to be the key to their current expansion abroad.[17]

Before turning to a survey of the existing situation, it must be noted that statistics on this subjects are hard to come by. Few countries disaggregate their investment figures to this level, be it as host countries or as home countries, and even when available these figures underestimate the investment, for local partners usually supply a major portion of the capital. In addition, investment figures usually do not provide information about the real source of the investment: funds apparently coming from a developing country may really be coming from the subsidiary of a transnational corporation in that country. Tax heavens may also produce distortions. Some representative figures, nevertheless, may be useful:

(a) In Indonesia, if mining and petroleum are omitted, Hong Kong is second only to Japan as foreign investor, Philippines is third, Singapore seventh and Korea eighth, while Asian developing country investors together stand above Japanese, North American or European investors. Of 360 firms granted promotion status in Thailand between 1966 and 1973, 93 were from Taiwan, 16 from Singapore, 15 from India, 10 from Malaysia and 5 from Hong Kong; 36 listed in the 'others' category were probably mostly from developing countries too. In the Philippines, Chinese investors accounted for 413 million of the 2 829 million pesos of foreign investment approved between 1968 and 1974.[18]

(b) India has 110 joint enterprises operating in over 35 countries, and 87 in various stages of implementation. Main host countries are Malaysia (36), Indonesia (18), United Arab Emirates (17), Kenya (14), Nigeria (12), United States (10), and United Kingdom (6). The main activities of these enterprises in developing countries are in engineering products, capital goods and shipping, while in developed countries they are in hotels, restaurants and food processing, although there are also a few manufacturing enterprises.[19]

(c) Seventeen out of 29 foreign-owned companies in textiles and related fields in Nigeria have owners from other developing countries; the same is true of 3 out of 6 companies in cocoa, chocolate and sugar confectionery, 4 out of 10 in structural metal products, 4 out of 7 in furniture and fixtures and 4 out of 4 in miscellaneous chemical products.[20]

[17]Louis T. Wells Jr. "The Internationalization of Firms from Developing Countries", in Tamir Agmon and C.P. Kindleberger (eds.) *Multinationals from Small Countries*, Cambridge, The MIT Press, 1977.

[18]*Ibid.*

[19]Ram Gopal Agrawal, "Third World Multinationals: Indian Experience", paper presented to Seminar on Third World Multinational Corporations, East-West Center, Honolulu, September 1979.

[20]C.N.S. Hambudiri, O. Iyanda, D.M. Akinnusi, "Third World Country Firms in Third World Developing Countries: The Nigerian Expecience", paper presented at the same seminar mentioned in footnote 19.

(d) South Korea has 150 international firms operating in 44 countries, 77% of them in developing countries. Korean private investment abroad increased from US$ 64 million (103 cases) in 1976 to US$ 150 million (245 cases) in 1978. Nearly 50 South Korean construction companies are operating in 25 developing countries: in the Middle East alone there were 30 companies with over 60 000 workers and US$ 8 million worth of contracts in 1979.[21]

As regards Latin America, the statistics for nine countries (see table 1) show that intra-regional direct foreign investment amounted to about US$ 350 million at the end of the 1970s: somewhat over 1% of total direct foreign investment in the region. Many of the countries are both sources and recipients of such investment. As sources, Argentina is first in Brazil and second in Ecuador, Mexico and Venezuela; Brazil is first in Bolivia and Chile; Venezuela is first in Colombia, Mexico and Peru; Chile is first in Ecuador; Uruguay is second in Brazil and Peru, and Colombia is first in Argentina. Overall, Argentina and Brazil are the main source countries. Mexico is probably also an important source, but statistics for Central America, where most Mexican investment occurs, are not available and in South America Mexican investment is not significant. The less developed countries, as might be expected do not have large investments abroad. As recipients, both Argentina and Brazil are important, but so are some less developed countries such as Ecuador. Geographical proximity has a decided influence: 36% of Colombian investment is in the Andean region and Panama, 30% of Argentinian investment is in Brazil and 30% in Uruguay; 50% of Chilean investment is in Argentina, Ecuador and Peru. Manufacturing investments clearly predominate, and joint ventures with local partners constitute the preferred modality. Other data show that the rate of growth of intra-regional investment in the last ten years has been significant.[22]

As we look at all these figures, however, their low absolute value must not be forgotten. With few exceptions, the international activities of Third World enterprises, by world standards, are still embryonic. To pretend otherwise might put them in an unequal struggle with small chances of survival.

[21]Kyung-Il Ghymn, "Multinational Enterprises from Third World", presented at the above seminar (see footnote 19).

[22]Eduardo White, *Latin American Joint Ventures: A New Way to Strengthen the Bargaining Power of Developing Countries vis-à-vis Transnational Corporations*, United Nations, Centre on Transnational Corporations (forthcoming).

Table 1

INTRA-REGIONAL DIRECT INVESTMENT IN LATIN AMERICA

(Accumulated flows recorded, in thousands of dollars)*

Countries of origin	Host countries									
	Argentina[a] 8/1976	Bolivia[b] 1976	Brazil[c] 6/1976	Colombia[d] 12/1978	Chile[e] 8/1978	Ecuador[f] 12/1977	Mexico[g] 12/1978	Peru[h] 12/1977	Venezuela[i] 12/1978	(Total)
Argentina	*	441	20 031	1 062	662	10 846	986	1 771	2 058	(37 857)
Bolivia	2 605	*	17	5	133			431	49	(3 240)
Brazil	16 889	1 301	*	2 404	13 969	4 752	734	949	338	(41 336)
Colombia	22 043	–	244	*	50	10 347		695	1 499	(34 878)
Chile	355	271	273	195	*	11 097	218	1 240	82	(13 731)
Ecuador	–	–	148	17 620	100	*	–	825	21	(18 714)
Mexico	762	–	7 650	4 142	2 552	4 771	*	1 156	1 846	(22 879)
Paraguay	–	–	1	–	–	–	–	–	77	(78)
Peru	8	594	14	1 719	47	1 186	133	*	193	(3 894)
Uruguay	7 930	–	16 475	1 110	300	–	–	2 256	3 811	(31 883)
Venezuela	10 090	–	13 333	26 123	5 697	5 525	1 205	2 011	*	(63 984)
Other Central American countries	–	–	194	278	82	9 776	–	38	933	(1 525)
Total	*60 682*	*2 607*	*58 380*	*54 659*	*23 592*	*58 300*	*3 276*	*11 372*	*10 907*	*(273 999)*

Source and notes:

*By host countries.

[a]Investments declared up to August 1976. Data supplied by the Departament of Foreign Investments of the Ministry of the Economy. No data available for the period 1 September 1976 to 1 March 1977. A total of US$ 27 426 000 was approved from September 1976 to September 1979 (Brazil 20 632 000, Uruguay 4 917 000, Venezuela 829 000, Costa Rica 848 000, Guatemala 200 000).

[b]Direct foreign investment approved by the Industrial Promotion Agency (INI) between 1972 and 1976. Covers only part of the investment in the industrial sector.

[c]Bulletin of the Central Bank of Brazil, December 1978.

[d]Foreign Exchange Office, Banco de la República. Does not include investments in the oil industry.

[e]Foreign Investments Committee, period from 1974 to 11 August 1978.

[f]Central Bank of Ecuador, Balance of Payments Unit. Direct research on accumulated investment.

[g]Department of Foreign Investments and Transfer of Technology: "Sociedades mexicanas con participación de capital de países de la ALALC". Calculated at an exchange rate of 22.767 pesos per dollar, corresponding to the average for 1978.

[h]CONITE - Ministry of the Economy and Finance. Calculated at an exchange rate of 83.81 soles per dollar corresponding to the average for 1977 (IMF, *International Financial Statistics*).

[i]Superintendency of Foreign Investments, Ministry of Finance. Does not include investments in oil, tourism, banking and insurance (IMF).

III

Conclusions

What guidance can developing countries derive from this survey of recent developments in the East and South? This question is hard to answer without knowing what orientation developing countries want, and this in turn requires that the countries define what kind of development they want: economic system, income distribution, consumption patterns, industrialization goals, food and energy policies, desired level of national and collective self-reliance, degree of reliance on foreign investment and loans and on foreign markets. In the light of these objectives they will then have to decide the goods and services they need, whether to import them or produce them, and in the latter case, whether to set up a national enterprise or rely on a subsidiary of a transnational corporation. If the decision is to call in a

TNC, then the desired arrangement with it will have to be decided, since many new modalities have recently been developed.

The importance of clear objectives and strategies cannot be overemphasized. As the Cheshire cat told Alice: if you don't know where you want to get, it doesn't much matter which way you go. But answers to the questions raised in the previous paragraph call for difficult choices between short-term and long-term objectives and between national and regional development plans. It is often difficult for a poor country to sacrifice present consumption for the sake of future generations, and yet history shows that unless a country invests in its future, it will fall behind. It is also difficult to persuade the people of a country that regional development may be more to their advantage than the installation of a particular project in their country, yet modern production methods require much larger economic units than those provided by most develoling countries. The transnational corporations, with which the developing countries have to negotiate many aspects of their development plans, know exactly what they want. Likewise, agreed objectives and regional solidarity seem to be the surest ways to strengthen the bargaining capacity of developing countries, particularly the smaller and less advanced ones. But even if a country decides to go its own way, clear awareness of its goals and its options is essential. The first step to development is knowing what you want.

Since every developing country has its own objectives we shall postulate a set of these in order to derive some conclusions from our survey; other objectives could, of course, lead to different conclusions. Following the lead of a distinguished Third World scholar,[23] let us assume the following scenario. A change in international structures is coming. The future markets and labour surplus lie in the South and the underutilized capital which the North continues to amass needs to reckon with this reality. National orders within the Third World adapt to the needs of their own peoples, led by pressure from their explosively growing cities and an intensive process of internal migration. Major changes in life-styles and industrial and trade patterns occur in the industrialized countries as rising energy costs cut into their comparative advantage in energy-intensive agriculture and industry. Third World countries strive for balanced development of their agriculture (including self-sufficiency in basic foods) and their industry (including national and collective self-reliance), with a view to greater internal equity within nations and external equity among the countries and regions of the world.

In this context, it seems that the growth of East-West industrial co-operation and the international expansion of Third World State and private firms surveyed in this article, although still embryonic, have solid roots and will acquire increasing significance. The sharp boundaries between an expansive industrial West, a hermetic East and a passive South, mere provider of raw materials and markets to the West, will blur as it becomes evident that effective and mutually beneficial co-operation can exist between countries with different economic systems and different levels of development. Transnational corporations have shown surprising adaptability to co-operate with countries with planned and regulated economies where only non-equity forms of participation are open to them. They have also shown ability to respond to Third World demands for greater control over TNC subsidiaries, greater linkages between the subsidiaries and the local economy, and growing accomodation between TNC activities and those of Third World State and private enterprises. The variety of business arrangements developed testify to this flexibility: joint ventures, with varying degrees of sharing of risks and benefits, control and decision-making; special contractual agreements, where the TNC bears all the risks and the share of benefits is determined by negotiation; technology, management and marketing arrangements, where the domestic enterprise owns the venture, bears all the risks and gains all the profit, with payment to the TNC according to an agreed formula; and subcontracting, co-production and specialization agreements, where long-term relationships in production and marketing exist, but there is no sharing of control decision-making, risks or profits.

In the same context, it is clear that the

[23]Mahbub ul Haq, "Negotiating the Future", *Foreign Affairs*, Washington, Winter 1980, Vol. 59, No. 2.

South can profit from the experience of the East in their dealing with TNCs. Much of the East's success in negotiations derives from clear economic and development policies, unified bargaining —be it for the setting up of plants or for the sale or purchase of goods— and a strong administrative infrastructure. The ability to 'unbundle' the package offered by TNCs and to bargain only for the really needed items is another area where developing countries can study with profit the experience of the East. The ability to effectively monitor the implementation of agreements is another such area. In the institutional aspect, the experience of the East with State enterprises, even though carried out in different economic and political settings from those existing in most countries of the South, may still be of interest. This may be even truer of the socialist efforts to develop international enterprise organizations and socialist joint enterprises and the potential lessons to be learnt from these examples in respect of multinational enterprises such as those the Andean Pact and SELA have been promoting.

The main lesson that the South can learn from the East, however, does not refer to specific modalities or institutions. The situations are too different to permit copying or imitation. The really important lesson is that regarding the potential of a region to plan its own way of doing things and satisfying its needs, and of successfully bargaining with other regions for an equitable distribution of the world's resources and production.