THE MULTINATIONAL ENTERPRISE

EDITED BY

JOHN H. DUNNING

Professor of Economics
University of Reading

London

GEORGE ALLEN & UNWIN LTD

RUSKIN HOUSE MUSEUM STREET

1971

PART FOUR. DIRECT FOREIGN INVESTMENT AND THE LESS-DEVELOPED COUNTRIES

Chapter 8

THE STATE AND MULTINATIONAL ENTERPRISES IN LESS-DEVELOPED COUNTRIES

EDITH PENROSE

INTRODUCTION

In a recent series of lectures an eminent American economist predicted, rather hopefully, that the 'nation state is just about through as an economic unit'.[1] This prediction comes just at the moment when large numbers of countries in the Afro-Asian world have become politically independent for the first time – members in their own right of the society of nations, and under the impression that the era of the independent 'nation state' has, for them, just begun. Professor Kindleberger's prediction implies that the peoples of these countries are under a grave illusion if they think that their newly-won independence will include any real influence over their economic affairs. Nevertheless, within Asia and Africa, which after all includes China, reside the majority of the world's population, and it is of some interest to enquire whether this 'cosmopolitan'[2] point of view, so vigorously put forward in different contexts by a number of North American economists, seems likely to prevail in the near future.

[1] 'The nation state is just about through as an economic unit. General de Gaulle is unaware of it as yet, and so are the Congress of the United States and Right-wing know-nothings in all countries.' C. P. Kindleberger, *American Business Abroad: Six Lectures on Direct Investment*, New Haven and London, Yale University Press, 1969, p. 207.

[2] Cosmopolitan: 'Belonging to all parts of the world. Free from national limitations or attachments' (OED). The selection of the term 'cosmopolitan' by those holding the views analysed in this paper to describe their position clearly has persuasive value and seems on the surface to be accurate. Whether it accurately describes the likely outcome of the events predicted is another question.

True, Kindleberger does not specify the time horizon of his prediction, but one has the impression that he is not peering into far-distant historical vistas but into the foreseeable future. Already, he says, 'Tariff policy is virtually useless. . . . Monetary policy is in the process of being internationalized. The world is too small. It is too easy to get about. Two-hundred-thousand-ton tank and ore carriers and containerization . . . airbuses, and the like will not permit sovereign independence of the nation state in economic affairs.'[1]

True also, there is no hint that the 'nation state' is 'through' as a political unit, which may be of some comfort for those countries under the illusion that their time had just begun. But historically political independence – like political dependence – has had very important implications for economic policy. No one, of course, assumes that any state can, by virtue of its political independence, be completely independent of the rest of the world in its economic affairs. Sharp limits to the power of governments to shape the economic life of their countries as they would wish if no other country existed, are imposed by many types of circumstance, including the possibility of war, and are very different for countries of different sizes, with different endowments and in different locations. Such limits have always existed, but have not called into question the importance of the modern state as a significant economic unit.[2] Hence, the issue must turn on the extent to which contemporary developments are imposing such extensive new limits on the power of the state to adopt and implement independent economic policies that one will soon be unable to consider it as an important 'unit' from an economic point of view.

In this chapter I shall deal with the question only so far as it relates to the countries of the third world. First, I shall briefly recapitulate the contemporary developments that have led to the so-called 'nation state controversy' and to conclusions which, from almost any standpoint outside North America, seem bordering on the absurd. Secondly, I shall examine the way in which the countries of the world are to become so closely 'integrated' into the international economy that they lose their economic identity; I shall then look at the relation of this process to conditions widely prevalent in the less-developed countries. Finally, I shall suggest what seems to me a more likely course of events.

[1] Kindleberger, *op. cit.*, pp. 207–8.
[2] See, for example, the discussion by Simon Kuznets, 'The State as a Unit in the Study of Economic Growth', *Journal of Economic History*, Vol. 11, Winter 1951.

THE LARGE ENTERPRISE AND ECONOMIC INTEGRATION

The new developments in the modern world that are to bring about the economic obsolescence of the state relate to technology and (or including) techniques of organization. These have reached the highest stages in their evolution so far in the United States and have enabled the large business corporations of that country not only to dominate or, if you like, 'integrate' the US economy, but also to reach abroad on a hitherto unimagined scale and directly to organize economic activity in other countries. It is not surprising, therefore, that American economists should take the lead in drawing attention to the prospect that these corporations (aided perhaps by some from other countries) will now proceed to accomplish in the international economy what they have accomplished at home. The emergence and spread of the large national corporation in the United States is held to provide a pattern, or prototype, not only for the evolution of the international corporation, but of the international economy as well.

The future economic organization of the world under the aegis of the large corporation is seen, therefore, as the culmination on a global scale of an evolutionary process that has been long in the making. Kuznets has looked at economic history in terms of 'economic epochs', the distinctive features of an epoch being determined by 'epochal innovations'.[1] He finds that the innovation distinguishing the modern economic epoch is 'the extended application of science to problems of economic production'.[2] It is within this framework that the modern corporation has developed. From small beginnings in the introduction of simple technology, the basic economic units in the organization of production, – the factory and the firm – have grown steadily in size and in complexity.

This growth has been characterized by increasing division of labour, increasing use of capital, and continuous innovation in the techniques of both production and organization and in the nature of output. The potentialities of the corporate form of organization have been progressively developed as a means of raising capital, spreading risk and expanding the scope of the enterprise through merger and acquisition. It became possible for one firm to integrate vertically entire industries within its scope and to spread horizontally over wide geographical areas. Because the potentialities for the growth

[1] S. Kuznets, *Modern Economic Growth: Rate, Structure and Spread*. New Haven and London, Yale University Press, 1966, pp. 2 ff.
[2] *Ibid.*, p. 9.

of the firm tend to exceed the growth of demand for a given product after a point, the aggressive enterprise will for ever be seeking new fields of activity, devising new products, and developing new markets.[1] This process has been especially prominent in the United States where 'product development and marketing replaced production as a dominant problem of business enterprise'.[2]

Such diversification brought with it an appropriate internal structure of organization, for it was found desirable to create separate central divisions to deal with the several activities of the firm, although the activities themselves were often carried on in separately incorporated subsidiaries. The 'multidivisional' form of organization is extremely flexible, for new activities can be taken on and old ones thrown off with relative ease, while the central activities of planning and directing overall corporate development and strategy can be concentrated in head offices with a very long view and a very wide horizon, which even curves round the earth. In these circumstances, and given the scope for profitable expansion abroad, the international spread of US corporations, as well as of corporations in similar positions in other countries, is easily explicable. The chief older incentives to direct foreign investment – the development of new sources of supply of raw materials or control over old ones – were increasingly supplemented by the need to secure and control markets.[3] New methods of organization supported and induced by new technology in office machinery and data processing seem to have greatly extended the limits to size which had previously been imposed by the requirements of administrative co-ordination. Extensive decentralization of responsibility and authority are characteristic of the new forms of organization, but do not seem to have prevented the central planning of strategy and control.

Galbraith's vision of the emerging American society is relevant to the argument we shall be discussing, although it is possible that its adherents would vigorously reject any association of their views with those of Galbraith.[4] Nevertheless, it must be remembered that implicit in the discussion is the presumption that it is in the American image that the international corporation will reshape the world, and Galbraith's picture is in broad outline plausible. It is of a society

[1] See my *Theory of the Growth of the Firm*, especially Chapters V and VII.

[2] See S. Hymer, 'The Multinational Corporation and the Law of Uneven Development', in J. N. Bhagwati (ed.), *Economics and World Order*, New York, World Law Fund, 1970.

[3] Hymer, *op. cit.*

[4] Kenneth Galbraith, *The New Industrial State*, London, Hamish Hamilton, 1967.

ruled – or rather managed – by the 'technostructure' of the large corporations. The members of this class – if it can be so called – are responsible for the profitable management of the vast resources of capital, skilled manpower and technology at the disposal of the one or two hundred leading corporations which dominate the modern industrial economy. Successful management of resources on such a scale requires long-range planning. Successful planning requires, in turn, a high degree of control over the environment in order to reduce to a minimum unpredictable reactions to the corporations' activities.

This environmental control must be far-reaching: it requires extensive vertical and horizontal integration to establish and maintain control over sources of supply and of markets; effective use of advertising and other techniques of managing consumers' demand; the maintenance of close relations with government to achieve the necessary support for capital-intensive technological research and to ensure the required demand from the government as a consumer; the cultivation of close relations with academic institutions to ensure certain types of research and the required sources of technological recruitment; and the promotion of appropriate adaptations in the labour force and in the trade unions. The corporate 'technostructure' is thus the pervasive and effective power through the society.

As I understand the argument of those who predict that the economic future of the world lies in the hands of the large corporation, it is by an extension abroad of the same type of managerial control now exercised by the 'technostructure' in the United States, that the big corporations are supposed to integrate the world and reduce to insignificance the economic importance of 'nation states'.[1] We now turn to a discussion of the way in which this state of affairs might be achieved.

A NEW STRUCTURE FOR THE WORLD ECONOMY

I have seen very little concrete discussion of the process by which the world economy is to be integrated under the impact of the international corporations. The analysis seems to consist mostly of draw-

[1] 'The multinational corporation, if it succeeds, will reproduce on a world-level the centralization of control found in its internal administrative structure.' – S. Hymer and S. A. Resnick, 'International Trade and Uneven Development', to appear in Kindleberger, *Festschrift*, 1970.

ing analogies with the United States and sometimes with US/Canadian relations. In the United States the large corporations have not had to contend with independent states and national boundaries, for the local states have never had the type of power which could seriously interfere with interstate investment, trade, money flows, or migration. On the other hand, in spite of national boundaries, there has been considerable integration of the Canadian and US economies through the agency of the international corporations. I shall return to this later.

It is true, as Kindleberger has emphasized, that the national corporation raised capital in those parts of the United States where funds could be obtained most cheaply and invested where labour was relatively cheap, thus helping to equalize wages and the cost of capital throughout the country,[1] and that through national advertising it created the same wants and brand attachments from coast to coast, thus creating a national market. In addition, its managerial and technical personnel (the 'technostructure') are highly mobile, further reducing regional attachments within the corporation. On all this type of thing is hung the generic label 'integration' which, as the opposite of disintegration, is supposed to be a very good thing indeed. It is easy to see in broad terms that a similar process may take place internationally – in fact, that it already is taking place in some degree. But how is it to reduce the economic significance of the state?

A vivid picture of a possible structure for the emerging international economy matched against the structure of the international corporations that shape it has been painted by Stephen Hymer, so far as I know the only economist to go into much concrete detail.[2] Ingeniously combining location theory with Chandler and Redlich's 'three-level' scheme for the analysis of corporate structure, Hymer sketches a model of a world in which the international corporations dominate great industries on a global scale. Their head offices, on which the framework of control is centred and where global strategy is determined, are located in the great major cities of the world, to which the best men of all countries are attracted and which become the true centres of world power. Below these cities are arranged a hierarchy of lesser, though still large cities, where the activities requiring white-collar workers and technicians of all kinds are concentrated. These are concerned with communications, information, and all other functions involved in co-ordinating and supervising the managers of the production and distribution activities that take

[1] C. P. Kindleberger, *op. cit.*, pp. 187–8.
[2] Hymer, *op. cit.*

place at the next level below. The 'level III' activities are devoted to managing the day-to-day operations of the enterprise and are spread widely over the earth, their location being determined by 'the pull of manpower, markets, and raw materials'.

Thus the structure of the world economy itself reflects the corporate structure – cosmopolitan and truly international: a few great cities containing the richest and the most powerful who make the long-range plans and exercise overall control, lesser cities, flourishing with lesser functions of co-ordination and supervision, and finally a hinterland of on-the-ground production and distribution personnel, and presumably even manual workers, in the smaller cities and towns below. All are 'integrated' within the hierarchical structure of the few hundred international corporations, and their development is shaped in accordance with corporate plans. Investment and production are spread widely over the world, but the centre of attention is on international *industries*, not on the development and growth of national economies.[1]

It is not very clear from Hymer's exposition how far he really believes in his own model, and certainly he is not convinced of its desirability. But if the type of development outlined is to 'integrate' the world economy so successfully that national frontiers become relatively insignificant, the international corporations will have to be able to carry on their activities – and especially those relating to their investment, trade, financial affairs and labour and recruitment policies – with minimal interference from individual governments. It is envisaged, at least by Kindleberger, that the national interests of the countries involved would be protected by independent international bodies or through international agreements. The international arrangements would presumably be established partly as a result of free negotiations, such as those of the European Common Market, and partly also because the force of circumstances left little alternative to the governments concerned.[2] The truly international cor-

[1] It should be noted that, in spite of the terminology commonly adopted in these discussions, the 'world' referred to in fact excludes over a third of the population of the earth, for all of Eastern Europe and the largest country in Asia are presumably not expected to be amenable to integration by the international capitalist corporation. One might have thought that Kindleberger should have included 'left-wing know-nothings' among the ignorant. (See footnote 1, p. 221.)

[2] Both Kindleberger and Hymer suggest that the activities of international corporations have placed significant limitations on the freedom of action of even the United States Government in the conduct of its foreign economic affairs.

poration, without national attachments, with no 'citizenship' and therefore indifferent to all national considerations, would attempt to equalize return on assets at the margin subject only to 'the discount for risk which applies realistically at home as well as abroad',[1] and would be free to do so within the internationally agreed constraints.

According to this 'cosmopolitan', or 'international' thesis, such corporations would do for the world economy what national corporations have allegedly already done for the United States economy: their capital would flow to raw materials and the cheaper sources of labour, with the result that the benefits of modern technology would reach the poorer and backward areas of the world, opportunities for all peoples, both at home and abroad, especially as internationally mobile employees of the large corporations would be widened, and consumption standards would rise everywhere. In short, the classical advantages of the international division of labour and free international trade would bring about greater world output and greater efficiency in the allocation of world resources.

It is not my purpose here to discuss the merits of this argument. Rather I now want to turn to an examination of the relationship that is envisaged between the international corporation and the state in the light of conditions and attitudes now widely prevalent among the less-developed countries.

ATTITUDES TOWARD INWARD INVESTMENT

In discussing the problem from the point of view of the less-developed countries, I shall deal with three broad interrelated considerations: first, the emphasis that the new states place on 'nation-building', an integral part of which is the economic development of their own countries with a view to increasing the opportunities and standard of living of their own peoples in their own lands; second, the emphasis commonly placed on national economic 'planning' and the role of the so-called public sector, sometimes referred to loosely as 'socialism'; and finally, the ambivalent attitude toward foreign enterprise and the widely-expressed fear of foreign 'exploitation', again loosely referred to as 'imperialism'.

There is no doubt whatsoever that the less-developed countries in general take a 'narrowly-nationalistic' view of their situation. Economists from the industrialized countries, the riches of which are spilling over the frontiers may, with impeccable theoretical

[1] Kindleberger, *op. cit.*, p. 183.

credentials and considerable practical force, point out to the poorer countries the folly of their ways, but one must deal with the world as it is. And the fact is that these countries are obsessed with their own economic problems and care not a bean for 'world allocative efficiency'. It follows, therefore, that their leaders must be convinced that the economic development of their own countries will be hastened if they give reasonably free rein to foreign corporations, or else they must be forced to do so by a variety of economic or political pressures to 'liberalize' their policies.

There are very great differences in the attitudes of the countries of the third world in this respect, but even in countries where foreign firms are reasonably welcome, restrictions are usually placed on their freedom of action, and these restrictions are often of a kind that force the foreign corporations to pay as much attention to national development needs as to international efficiency, if not more. There must be few underdeveloped countries in which foreign companies feel really secure and at ease, for suspicion of them is very widespread indeed.[1] Are such attitudes likely to change in the foreseeable future? I think not, for three reasons.

My first reason (not necessarily the most important) relates to the inconclusiveness of the relevant economic analysis. That I should suggest such a consideration as an important influence on the attitudes of the leaders in less-developed countries may cause many to doubt my sanity, let alone my experience of these countries. Nevertheless, I submit that if all Western economists were agreed that direct private foreign investment always brought important net benefits to developing countries, benefits that were maximized when foreign companies were allowed to operate as freely as they chose, and if all the students from the developing countries studying economics in the Western world were firmly taught these propositions, it would be very much easier to persuade their economic ministers of the truth of this point of view. In practice, all relevant economic theory places much emphasis on the possible conflict between social and private benefit and on the dangers of monopoly, and some of it emphasizes the wastes of competition. In certain fields of international economics, special stress is laid on the specific problems raised for national economies by the operations of foreign firms. Considerable attention is paid in modern theory to the role of 'learning by doing' (which, of course, suggests that one does not gain by allowing foreigners to do too much). The list could be lengthened. My

[1] The exceptions will be found primarily in countries which are straightforward political dependents of industrialized countries such as, for example, Taiwan.

point is that serious and competent economists can make a strong case against a permissive attitude toward private foreign investment and thus bring respectability even to attitudes originally based upon an unthinking, emotional reaction.

My second reason for thinking that the role of the international corporation will be limited by the state in the third world for a long time to come is in a sense a continuation of the first. Economic planning, one of the most outstanding characteristics of the large corporation itself, is now widely accepted as an important function of the state in the interest of the development and stability of its national economy. The term 'planning' is only a generic one, covering many qualitatively different species of activity, but it carries with it the notion of establishing priorities among objectives, of setting targets and then of attempting systematically to achieve these targets.

Development planning is almost universal in the less-developed countries, aided and supported by international organizations and by developed countries of all political shades. In my view, development planning is not necessarily inconsistent with a large and growing private sector, nor with a high degree of autonomy for both private and public enterprises. But this is by the way; the fact is that many developing countries have conceived of planning as the antithesis of private-enterprise capitalism responding to the profit motive. Attributing much of their present lack of development to colonialist exploitation or capitalist imperialism, and with an eye on the alternative modes of economic organization seen in the communist world, many of them enthusiastically adopted – at least formally – a centralized type of planning, nationalizing their major industries and creating in the process a large 'public sector'. For the most part their reach exceeded their grasp, and their first enthusiasm has given way to much disillusion. A public commitment to 'socialism' usually remains, but in many countries reappraisal and retrenchment is the order of the day.

It would be a very grave mistake, however, to interpret retrenchment as a return to the older system, as a complete reversal of policy. More freedom and autonomy for enterprises there may be, and more sympathy and encouragement for the private sector, but governments will continue to be concerned with priorities, and will continue to intervene in attempts to ensure that the private sector, including foreign enterprises, will operate in ways consistent with overall government objectives. The priorities and objectives will differ for countries in different economic positions, but there is no

reason to think that they will be consistent with the objectives of international corporations, were the latter free from state interference. They will continue to find that the state will remain a powerful and difficult economic unit. This is not to say that international corporations will become less important than they are now; on the contrary, their contribution should increase as countries develop, but this contribution will have to fit in with national priorities.

Finally, I come to my third reason why governments in the third world can be expected to continue to assert their economic independence *vis-à-vis* foreign corporations – a widespread dislike of foreign domination, ranging from obsessive fears of 'imperialist exploitation' to simple political pride in the ability to maintain a high degree of independence. These attitudes will tend to persist as long as there are really glaring disparities in the economic position of the peoples of different countries.

As noted above, some countries trace many of their present problems to imperialist exploitation in the past, and their governments make great political play with anti-imperialist slogans in attempts to rally their people to support their policies. This is particularly common among governments which consider themselves 'revolutionary'. But even when governments are relatively conservative, there are always vocal groups which use such slogans in appealing to the people for support, and which governments can rarely afford to ignore. The roots of these attitudes, and the justifications for them, are far too complicated to explore here. They lie deep in grievances, real or imagined, inherited from the past, and in bitter feelings of inferiority directly traceable to the wide disparities in standards of living, technology and education that exist between the rich and the poor areas of the world. These feelings are exacerbated by sheer frustration and a sense of helplessness in the face of the overwhelmingly difficult problems inherent in attempts to force economic development and political progress at anywhere near the pace considered essential. They therefore become a potent political force in internal political struggles, and can be used to arouse class antagonism when conservative or 'reasonable' governments come too close to foreign business interests.

Because xenophobia is often used as a scapegoat for domestic troubles, there is a tendency among Western observers to put this entire complex of attitudes and behaviour into the box labelled 'irrationality' with no further attempt at analysis, or else to assume that the source of the trouble lies with 'communists' and the cold war. No one can deny that there is often much stupidity, illogicallity and unthinking emotionalism to contend with, as well as genuine ideological controversy, but I think that there is a real problem underneath the froth worthy of serious attention – and this apart from the seriousness with which one must examine the ideological basis of conflicting views.

It is, of course, irrational of economists to label other people's preferences 'irrational', provided that these preferences are consistent and that their implications are appreciated by those who express them. It has always been understood that welfare encompasses much more than objectively measurable economic goods and services – workers (and businessmen) may prefer leisure to income after a point without being thought irrational, 'psychic utility' lies at the basis of the theory of consumers' choice. Even the notion of 'community preferences' is respectable in much welfare theory, in spite of the obvious difficulties, and surely it is not unreasonable to postulate that some peoples may prefer to run their own affairs as far as possible rather than have them run by foreigners. In other words, extensive and dominant foreign control of economic activities may in itself be a positive disutility to a community, and the community may be willing to incur a cost to avoid it.[1]

If 'disutility' of this kind exists, it may take the form of complaints that the country is being 'exploited' by foreign companies, who may then be accused of 'neo-imperialism'. It is very difficult to give a concrete meaning to such terms as 'exploitation',[2] but there can be no doubt that a feeling of being exploited is one of the compelling forces behind much of the hostility directed toward large foreign firms. Their size, international scope, political, managerial and technological expertise, and in general the apparently wider 'options' open to them in determining their policies, all give rise to a feeling in their less well-endowed host countries that bargaining power is grossly unequal, with the result that the foreigner obtains a disproportionate gain from his activities in the country. The notion of *disproportionality* rather than the notion that the country necessarily loses *absolutely* is, in my view, the important consideration on which to focus in explaining the prevalence of the belief that foreign in-

[1] I have developed this argument in more detail in an essay, 'International Economic Relations and the Large International Firm', in *New Orientations: Essays in International Relations*, Peter Lyon and E. F. Penrose (eds.), Cass, 1970, pp. 114–22.

[2] See my attempts to do this in 'Profit Sharing between Producing Countries and Oil Companies in the Middle East', *Economic Journal*, June 1959, pp. 251–2; Professor Kindleberger's criticism in *Economic Development*, New York, 2nd ed., p. 334, and my further attempt in the article cited in the previous footnote.

vestment tends to be exploitative.[1] The larger and more internationally powerful a foreign firm becomes, the greater may be its need to demonstrate its value to the host countries by contributing even more extensively to their development in terms of their own objectives.

Resentment, and difficulties, are sometimes intensified by attempts of dominant industrial countries to put pressure on less-developed countries in order to force them to admit private investment more freely. There is a certain analogy here with what has been called the 'imperialism of free trade' in the nineteenth century. Britain was committed to free trade and she sometimes forced it on other areas under her political domination. It may be that she did so in the firm belief that, for all of the classical economic reasons, it was economically advantageous to the colonies as well as to the mother country. Nevertheless, one consequence was the destruction of some local industries with nothing to take their place. Today, infant industry (or infant country) arguments are almost universally accepted as grounds for making exceptions to free trade. But as Robinson and Gallagher have pointed out, the function of imperialism was to integrate new regions into an expanding economy, and it did so for a variety of agricultural and mining activities in an earlier period, but probably at an unnecessary cost to local development.

Today we have what might be called the 'imperialism of free investment', with precisely the same function, supported by arguments similar to those advanced for free trade, and enforced where possible by the dominant industrial power. From the point of view of the regions peripheral to the industrially advanced economies, however, 'free private investment' may have disadvantages similar to those attaching to free trade. Indeed, it is for this reason that even the most enthusiastic supporters of it admit the necessity for some sort of international controls.

It seems to me that these are powerful obstacles in the way of the new organization of the world under the aegis of the international corporation. Few will deny their importance, and the only question is whether or not the almost mystical forces of modern technology

[1] 'The notion is that the foreign company is obtaining a *disproportionate* gain – a gain greater than he ought in some sense to get when it is compared with the gain accruing to the receiving country. In other words, it is a feeling of 'unfair' treatment, and this is what makes the notion so extremely difficult to analyse from an economic point of view, for it does not depend on any objective measurement of the absolute gain received by either side, but on their *relative* positions in the light of what seems fair to one side only', Edith Penrose, 'International Economic Relations and the Large International Firm', *op. cit.*, p. 119.

and organization are even more powerful. The vision of the American economists of an 'integrated' world may to some extent be shaped by their experience with Latin America and Canada, where the big American corporations are indeed making great strides in integrating many industries across national frontiers without serious opposition from governments. In Latin America, the organization of the bauxite-aluminium industry between the Caribbean, North America and Latin America is a case in point:

> The resources of each region reach the other in a more finished form *via* processing plants in the United States. For example, in 1962 Latin America imported 60,000 tons of aluminium, the bulk of its requirements, from the United States and Canada. But the United States and Canada in turn import nine-tenths of the raw materials needed to make aluminium (bauxite and alumina) from the Caribbean. That is to say, North American-based multinational corporations, four in number, mine and treat bauxite in the Caribbean and transfer the material to processing plants in the United States and Canada. Part of the output of aluminium and semi-finished aluminium products is then exported to Latin America. . . . What is . . . important to bear in mind is that the product and commodity flows are not so much between economies as between one plant and another within the multinational corporations and their own marketing agencies. Thus, intracorporate commodity transfers between plants located within different countries may satisfy the formal criteria of international trade, but so far as resource allocation is concerned the flows are of an internal character, within frontiers which are institutionally, not politically defined.[1]

[1] Norman Girvan and Owen Jefferson, 'Institutional Arrangements and the Economic Integration of the Caribbean and Latin America', University of the West Indies (mimeo), pp. 13–15. The authors go on to say: 'The converse of the high degree of mobility within the company is a certain degree of rigidity so far as intra-regional product and capital flows between companies are concerned. For example, the [multinational corporation] with raw material facilities and processing capacity will not normally purchase raw materials from another producer. . . . Thus corporate integration can, and often does, result in regional fragmentation. This fragmentation does not only occur between the two regions, as already suggested. The experience of the Caribbean with its bauxite industry suggests that fragmentation can take place within a given region and even within one country. Thus that part of the bauxite output of Jamaica and Guyana which is produced by Reynolds Metals, the US aluminium producer, reaches the fledgling aluminium smelting industry of Venezuela after being shipped to the US and manufactured into alumina at Reynolds' plants and then re-exported to the South

It is possible, therefore, that the present position in Latin America gives much support to the American vision. I am not competent, however, to judge how stable this position is, nor how much harmony there exists in the relations between governments and peoples in Latin America on the one hand and between both and their great northern imperial neighbour on the other. On this may depend whether or not experience with Latin America will contradict my thesis. The case of Latin America, however, must be distinguished from that of Canada. The essential difference lies in the fact that the peoples to the south are much less well-off by and large than are the Canadians. Here I have been concerned with the problem only with reference to the unindustrialized, undeveloped, poor countries of the world. The problems – and perhaps also the outcome – are very different when the relationships involved are less unequal and the sensitivities and needs less acute.

It is also possible, however, that my views are excessively coloured by my own experience in the Middle East and certain parts of Asia, and with the international petroleum industry in all areas, including South America. In this industry, the necessity of international integrated planning has been put forward as persuasively as anywhere, yet events have been moving in a rather different direction since the war. The industry points to its own history in support of its arguments regarding the advantages of integration for there is, and has been, a very high degree of international integration within the framework of a few large multinational enterprises. This integration includes a large part of the world, but excludes the Communist countries, as well as the United States, which has an independent and highly nationalistic policy of its own. Although from the point of view of overall economic efficiency the development of the industry has been seriously distorted in several important respects because of its oligopolistic and vertically integrated structure, very large supplies of oil have been brought to the consumers of the world at a really remarkable pace, and very large revenues have accrued to the less-developed countries where crude oil is produced.

Before the war the international companies did not have much to contend with from the governments of the several countries in which they operated. It is probably fair to say that their greatest difficulties

American mainland, in spite of the fact that Guyana borders on Venezuela, and Jamaica is also nearer to that country than the United States. Conversely, Reynolds' bauxite output in Guyana and Jamaica has not so far been available to the existing processing capacity in both countries because this capacity is owned by a different company.' (Pp. 15–16.)

arose from the rivalries among their own home governments. Since the war there have been substantial changes and, in addition to their increasingly effective demands for greater tax revenues, governments have interfered in a wide variety of matters, including transfer prices, product prices, production programmes and policies, exploration and exploitation arrangements, refinery locations, and a host of minor matters. Nevertheless, the unit of planning is still the international industry and, strictly speaking, the crude-oil producing countries are still largely receivers of revenues, not exporters of oil.

Nevertheless, national enterprises in both exporting and consuming countries are becoming more important, and the international companies are finding their task of integrating and organizing the industry on a world scale (always excluding the US and the Communist countries) increasingly complicated by government pressures. In my opinion, a process of international disintegration has begun in this industry, and among the major reasons for it are those I have discussed above. But I do not believe that this will be disastrous, or even a serious setback, to most of the international companies, or that it will be unfavourable to the development of the exporting countries, or disadvantageous to consuming countries. 'Adjustment problems' there will be but, with the technical help of the oil companies, the exporting countries can find and produce oil. With co-operative arrangements between the companies and these countries, there is no reason why exports should not find their way in appropriate quantities, qualities and at appropriate times to refining centres and, if international refining arrangements are required for particular markets, they will be worked out at least as efficiently as they are now. Arguments that integrated control by a few big western firms is essential for efficient operation of this industry are little more than assertions based on very flimsy assumptions. In a far less integrated and more open industry, the international companies could (and will) continue to grow, earn profits in a variety of ways, and in general adapt themselves to changing environments and diverse government policies.

* * *

To summarize this section, I suggest that the state will remain an overwhelmingly important economic unit in the less-developed world, at least so long as that world is poor and technologically backward: (1) because the arguments designed to persuade it that its welfare would be increased by rapid and comprehensive 'integration' with the advanced countries via the international firm are

inconclusive and unconvincing; (2) because their peoples seem to want to demonstrate their competence and independence and to establish their own economic priorities – and insist on doing so; and (3) because inequality breeds fear of the more powerful. Where foreign domination has been extensive, as it has apparently been, and still is in Latin America, it seems to raise political problems consistent with these considerations. It has even been suggested that some Latin American regimes are maintained in power only with the help of the great capital-exporting country whose firms have achieved dominant positions. In other instances there are signs that national governments are attempting to assert their economic autonomy against international firms.

THE FUTURE ROLE OF THE MULTINATIONAL ENTERPRISE

What, then, is the role of the multinational enterprise *vis-à-vis* the state? In spite of all the difficulties and attitudes outlined above, the less-developed countries, by and large, are prepared to accept – even to welcome – foreign enterprise and foreign help on their own terms where they believe it is clearly advantageous. 'Socialistically' inclined governments tend to insist on partnership arrangements; countries more sympathetic to private enterprise may also do so in less restrictive ways. For their part, the great international enterprises are likely to invest wherever they consider it profitable to do so, without worrying overmuch about ideological considerations if only they feel reasonably secure – which means if expected profit will compensate for any additional risk. These enterprises have a great contribution to make to the less-developed countries, but it is very different from what it is in the developed countries.

It has been persuasively argued that continual innovation in technology, and in methods of stimulating and sustaining consumers' demand with new products, new designs, new methods of marketing are necessary to maintain the momentum of the great industrial economies. Even if this is true, however, innovation and change of the kind that is characteristic of the United States economy, for example, is not the need, nor the popular demand, of the poor world. Many of their governments are aware of this, as are many international firms, some of whom devote special efforts to research into the ways of meeting their real needs – agricultural development, the provision of water supplies, special health or nutritional problems, etc. Moreover, much of the nascent industry of many countries has been established with the help of the great international corporations, which have provided technical advice, granted licences and help under their own patents, given managerial assistance and even made training facilities of various kinds available for local technical people. If attention were focused on this kind of thing instead of on the more sweeping and spectacular generalizations about the 'integration of the world' through the multinational enterprise and the economic absorption of the 'nation state', I wonder which type of activity would really turn out to be generally the most important in the developing countries?

A firm is a pool of managerial and technological expertise. It is also an efficient operating machine for both production and distribution. It can enter areas of inefficiency and set up and operate efficient units. It can also train others to do so, making much of its own expertise available in the process. Both of these are important activities, but I have not yet understood why the former will take precedence, or why world-wide planning on an industry level is the most efficient way to raise the standards of living of all peoples.

The notion that firms will integrate the industries, and thus the economies, of the world within their own administrative framework, and that this will maximize world welfare, rests basically on the notion that planning on a world-wide scale is not only the inevitable outcome of present trends and United States economic power, but is also the most effective way of bringing the peoples of the world closer to the United States levels of living. It seems to me equally likely that they will continue to function as important international organizations, complementing and aiding the economic efforts of independent countries to develop their economies, and that such enterprises will have an important independent role in all sorts of international economic relations, but will also have to conduct continuous negotiations with states whose economic sovereignty they must respect as they try to 'harmonize' their own interests with those of the countries in which they operate.

I have not tried to discuss 'welfare' considerations here or the extent to which integration by firms would advance the development of any particular country, both economically and politically. My primary thesis has been that so long as the inequalities among the nations of the world are so great that a large proportion of the peoples of some are in real poverty, the governments of these peoples will be unwilling to give the rich and favoured foreign economic interests a dominating position in their economies. I also think it probable that, for as long as we can conveniently foresee, governments must insist on a high degree of sovereignty over their

economic affairs in order to provide a national economic framework for the activities of their people on the one hand, and on the other to ensure that their economic needs are represented as identifiable claimants for international consideration. If the basic economic unit for planning is the independent country – or a group of countries where some of the national units are very small – it may be less likely that pockets of backwardness in the world will be forgotten and left to rot. It is argued that the existence of the economic sovereignty of the state leads to economic cleavages along national lines, but if national differences were eliminated through integration, would not cleavages of an even more intractable nature along class (or even colour) lines tend to be accentuated?

The concern of a government for the economic welfare of its country must inevitably encompass a variety of considerations which would not be important to a great international enterprise. Indeed, I suspect that multinational enterprises as we know them today would find their life intolerable if the 'state as an economic unit' really did disappear!