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Notes on the International Firm and Underdeveloped Countries.

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1. The traditional approach. International economic relations are still predominantly analysed in terms of a utilitarian model. In this model the primary elements of the international economy are nation states with utility functions. These states are autonomous, self-determining units related to other states via serial economic channells (trade, portfolio investment, direct foreign investment, aid, labour flows, monetary zones). The nature and degree of international economic interdependence is determined by each nation's exercise of their own utilitarian calculus in respect of these channells taking them one by one. In such a model corporations are subordinate structures. Foreign direct investment tends to be treated as a homogeneous category, as do the nation states themselves. The effects of an inflow of foreign investment therefore come to be analysed in terms of some supposed national utility (for underdeveloped countries this utility is translated into a teleological 'development') and in isolation from other forms of international economic relations. It is assessed in cost-benefit terms within a highly decomposed framework. As Meier put it in his 'Leading Issues': "From the standpoint of national economic benefit the essence of the case for encouraging an inflow of capital is that the increase in real income resulting from the act of investment is greater than the resultant increase in the income of the investor. If the value added to output by the foreign capital is greater than the amount appropriated by the investor, social returns exceed private returns." (G.M.Meier. Leading Issues in Development Economics. Oxford. 1964). The point of a model is not to serve as a total explanation: models are necessarily partial. They should be judged on the basis of how much they clarify and explain currently relevant issues. In these terms the utilitarian model obscures as much as it enlightens in the field of development economics.

2. An alternative approach. Rather than treating the international economy as a summation of national units, one may see it rather as an economic space within which the locational distribution of production may be explained by the interaction of certain types of decision-making unit. Nation states would be one such unit, but also international firms, international economic institutions, perhaps trade unions. The problem of underdevelopment might then be posed in terms of the economics of location, and the question of development could be thought of in the context of what forces would be likely to change the already existing polarisation of productive activity in favour of underdeveloped countries. Two points should be kept in mind from the beginning, however. First, we are not so much asking about the location of production over an area characterised by a homogenous productive system: we are rather dealing with a space in which there are two (or more) modes of production. Second, this space is divided into zones of politico-economic authority, i.e. countries. The way in which this authority is exercised, that is to say the determinants of

national economic policy, is less important at this point than the fact that it is exercised, and that its exercise is a significant factor in explaining the location of production. With these points in mind we may now set out the three main problems with which this paper is concerned: what factors lead to the expansion of a sub-system (or sub-systems) characterised by a particular mode of production into an area characterised by a different mode of production; what are the dynamic effects of such an expansion; and what significance can national economic policy (in this case that of underdeveloped countries) have on the process. It is in this way that I think the significance of international firms for underdeveloped countries can be best understood.

3. Reasons for the spatial expansion of a capitalist mode of production into a pre-capitalist area. We may list these as follows:

(a) the exploration for and exploitation of raw materials and certain primary products where forecasted production costs compare favourably with forecasted costs for such activities in the capitalist area.
(b) use of the area as a staging post between already developed areas (shipping ports, military posts, lines of rail.)
(c) availability of cheap labour.
(d) tourism.
(e) areas of permanent settlement ('the regions of recent settlement').
(f) extra-capitalist financial structures; duty free ports, tax retreats, and tax havens.
(g) extra-capitalist legal structures (flags of convenience).
(h) production in areas which are being used as military theatres.
(i) production in areas to which political aid has been given by a Western country.

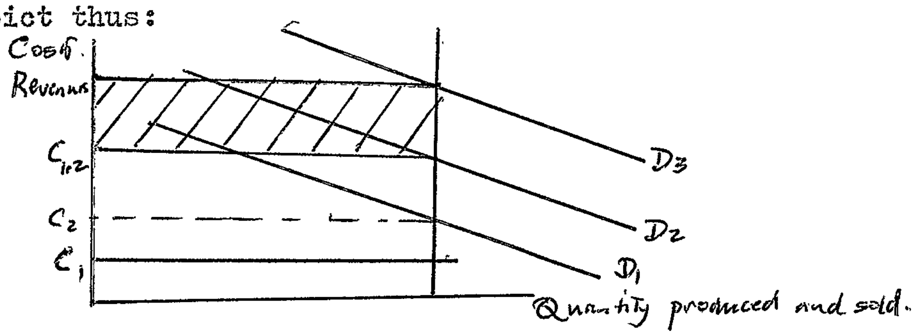
A number of these reasons may co-exist in a single country: thus Malta is a tourist island, a shipping port, a military post, and a tax haven, but they are analytically distinct and give rise to identifiable types of national economy viz: input economies, entrepot economies (trading, communications and capital entrepots), service economies, and military economies. What we are saying is that pre-capitalist economies are brought into an international division of labour in different ways, and that they should be seperately analysed in order to understand how their development potentials differ. In all these forms of expansion international firms are central. It would therefore be misleading to treat the effects of international investment as though international firms were of a homogeneous nature.

4. The dynamic effects of international firm investment in an underdeveloped country. I have suggested that the effects of international invesment may be expected to vary according to the type of investment: service investment (for example hotels) might be thought to have different developmental consequences (at least in the short run) to extractive investment. In all cases the effects may be analysed both in terms of the multiplier effects, and in terms of linkages. I will restrict myself to these effects as they occur in international extractive investment. In Figures 1 and 2 the main cash flows of significance into and out of an international extractive operation are shown diagramatically. There are still few studies which have quantitively estimated these flows over time. Lloyd Reynolds has published an interesting study for Chile where he computed what he termed the 'returned value' of the three major copper firms' investments in the country. The 'returned value' consisted of those flows which were directed into the rest of the Chilean economy, and included: the r.v. of local operating expenditures, including all payments to local factors for current operations; the r.v. of capital expenditures to local

factors of production; all direct taxes paid locally; duties on imports paid locally; miscellaneous items such as indirect taxes, export duties, dollar payments for local purchases, surtax etc.[5] The net return value excluded the r.v. of capital expenditures to local factors of production, and Reynolds estimated that this net figure as a percentage of the total value of copper sales changed from 38% in 1925 to 56% in 1959.[6] Less detailed studies have been done for Trinidad, and for Guinea. In Guinea Amin has estimated that the inflow to the Guinean economy from the Fria alumina operations was 15% of total investment in the construction period, and 25% of total outlay during the first operating period.[7] Amin included a more detailed calculation of the import coefficients of expatriate and indigenous workers at Fria, and found that 65% of all salaries paid to associates or employees of Fria were either transferred out of the country or else provided effective demand solely for foreign goods.[8]

5.[9] We should secondly analyse the linkage effects from any foreign extractive investment. It is in this field that we find many of the sharpest conflicts between the interests of the international extractive firm and the interests of the underdeveloped country.[10] Guinea may be once more taken as an example which stands for many others.[11] Aluminium Limited, through a subsidiairy, Bauxite du Midi, developed bauxite rescources first on the islands of Loss, and then at Boké.[12] In 1958, after Guinean independence, the government asked A.L. to develop the industry forward in the form of setting up an alumina plant.[13] A.L. refused on the gounds that (a) they had large surplus capacity in their Canadian alumina plant, and (b) that they were working on a technology which would allow bauxite to be transformed directly into aluminium, thus rendering obsolete alumina plants. Guinea consequently nationalised A.L. and finally granted the concessions to a relatively smaller American firms Harveys Inc.[14], who were not in the surplus capacity position of A.L. and were thus willing to develop integrated production within the economy.

6.[15] The influence of policy.[16] Much extractive investment in underdeveloped countries generates considerable economic surplus, which we may depict thus:



The division of this surplus will take the form of arrangements, changing through time, on a wide variety of operating procedures. The deal will be in the form of a 'mix', some of the elements of which I have laid out in the table attached. In this table I have tried to show the areas of conflict between international extractive firms and underdeveloped countries, and some of the policy instruments used by both the international firms and underdeveloped country governments in the process of this conflict.[17] I would emphasise only one point with regard to this table: that in each of these areas of conflict there tends to be considerable 'play', or put more formally, considerable 'zones of indetermination'.[18] The course of a country's development may be substantially different according to the way in which these areas of conflict are approahced.

7. I have wanted to suggest that foreign direct investment should not be treated as if it were homogenous; that the development resulting from this investment will be of a particular kind; and that the degree of developmental influence of such an investment may be substantially affected by underdeveloped country government policy.

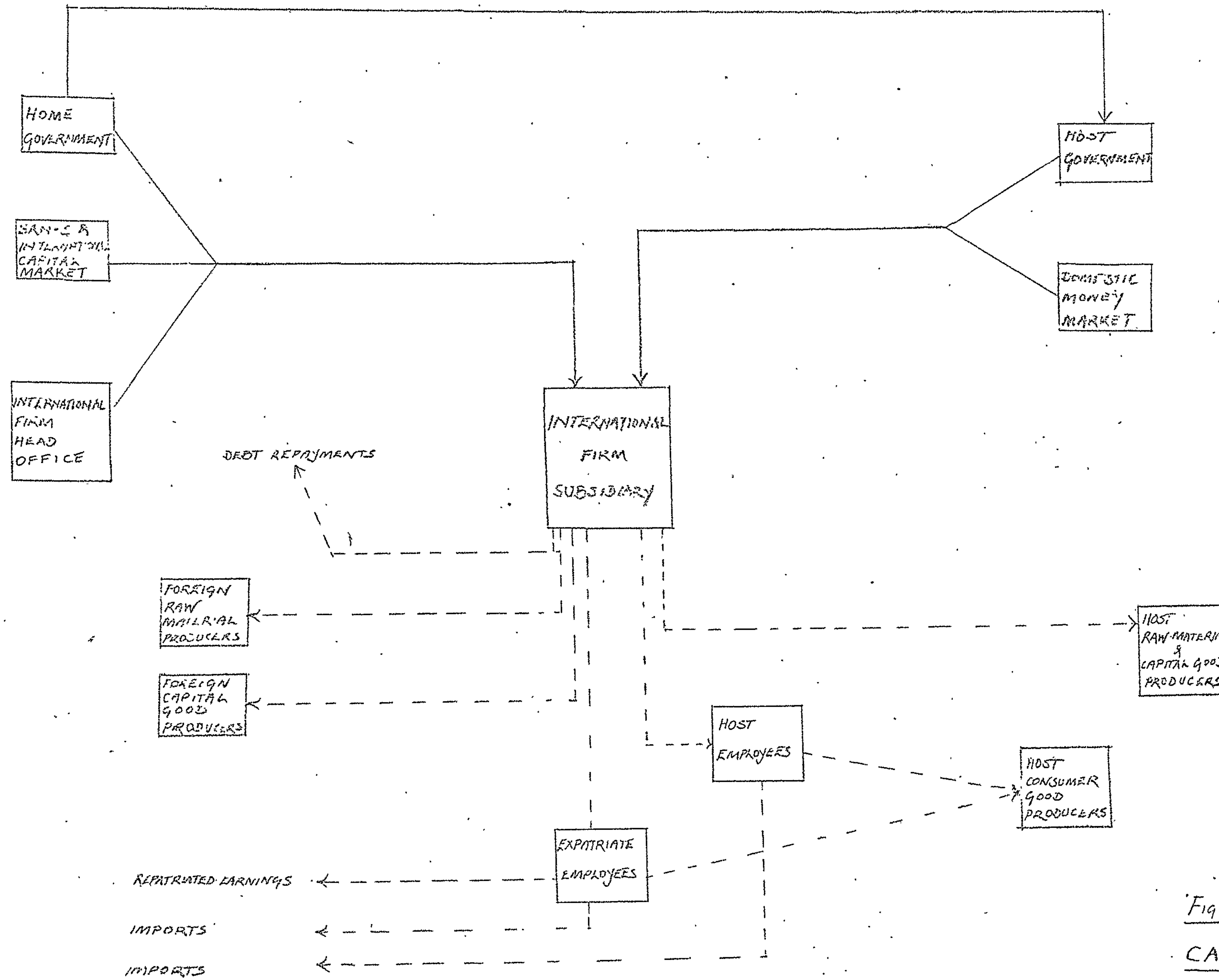


FIGURE 1.
CASH FLOW:
CAPITAL CONSTRUCTION.

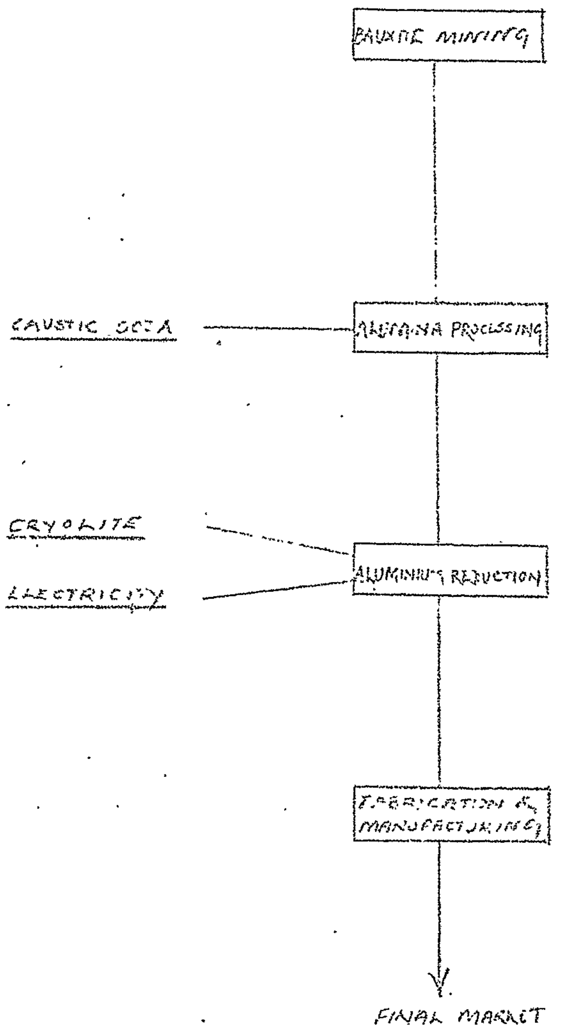


FIGURE 3 BAUXITE. STAGES OF PRODUCTION.

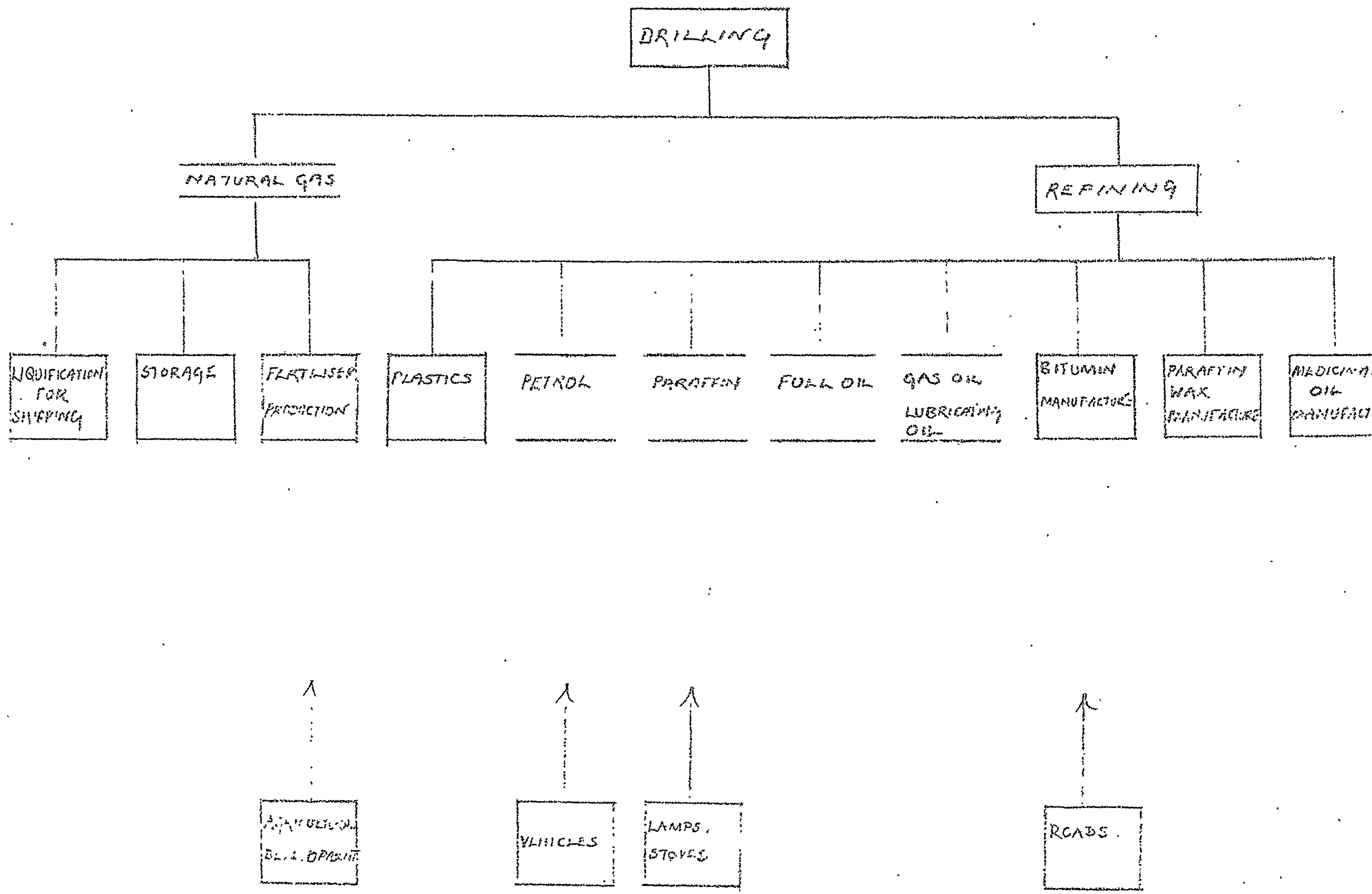


FIGURE 4 OIL & NATURAL GAS: STAGES OF PRODUCTION.