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BOOK REVIEW

Multinationals of the South: New Actors in the International Economy, edited by Khushi M. Khan, London, Frances Pinter Publishers, 1986, xi+250 pp.

I

As is well known, the development strategy of many developing countries has changed from one which emphasized import-substitutive industrialization to one of export-oriented industrialization. However, as the industrial nations' markets have since stagnated and their trade policies become increasingly protective, developing countries since the 1970s have had to reconsider the value of development strategies based on their domestic markets, endogenous development strategies which are no longer so dependent upon the industrialized countries—technologically, financially, or in terms of market. Emphasis then is no longer placed on the import-substitutive industrialization which they had previously attempted, but rather on meeting basic human needs, including the development of agriculture, infrastructure, etc. But, with most of these national economies still on a relatively weak footing, it is impossible for one country alone to pursue such an endogenous development strategy. Hence the idea that some developing countries with similar economic, social, and cultural conditions should promote this kind of strategy through financial and technological cooperation among each other, even with some degree of economic integration. This is termed "collective self-reliance" (CSR).

The idea of CSR is, however, still a little too far ahead of the realities, when there is little assurance of having the manpower and/or organizations to carry it out, or appropriate forms in which to promote it. Under these circumstances, hopes are now being entertained that the multinational firms of the developing countries (New MNCs) which emerged in the 1970s and have been rapidly growing, might play an important role in CSR. It is with this in mind that in November 1985 the German Overseas Institute, with the cooperation of the Volkswagen Foundation, invited such leading students of MNC and LDC development problems as J. H. Dunning, L. T. Wells, S. Lall, and J. P. Agarwal to hold a symposium, the result of which is the book under review.

The book begins with a discussion of the theoretical and conceptual framework within which New MNCs can be analyzed (by K. M. Khan, J. H. Dunning); then follows the treatment of problems concerning the relevance of New MNCs to cooperation among LDCs from the point of view of production, trade, and finance (R. H. Green, M. Svetličič, S. Chishti, M. H. Dunn and H. Körner, R. A. Suarez, and M. Mrak); their discussions are followed by case studies of Arab and Indian MNCs (J. B. Nugent and J. P. Agarwal); and the last chapters of the book are devoted to the examination of the possibilities of competition and cooperation between New MNCs and the MNCs of the industrialized countries (Old MNCs), also looking into host country's policies regarding the acceptance of New MNCs.

This book is valuable in its discussion of the problems of CSR, not only from the viewpoint of development theory, but more from the standpoint of the global international division of labor, covering the industrialized nations as well. Due to limited space here, an introduction of the contents will be offered focussing on just two points: (1) the background of the growth of New MNCs in terms of the international division of labor, (2) homogeneity and heterogeneity of the New MNC and the Old MNC.

II

Although the actual condition of the New MNCs is not known with accuracy because of the insufficient data, most contributors to this book share the view that the New MNCs have been growing rapidly in recent years, that they tend to be centered around traditional industries, that most of them operate in neighboring LDCs, and that in many cases they take the form of joint ventures with local enterprises.

How were New MNCs able to grow so rapidly? J. H. Dunning bases his argument on the investment development cycle theory which says that the level and pattern of overseas investment of a country varies according to its changing development phases. He looks at New MNCs in relation to the level of per capita GNP (and the development strategy) of the country. Since, however, the growth of the New MNCs is closely related to the dynamics of the international division of labor, M. Svetličič, for example, finds an important reason for the development of New MNCs in that they have had to challenge and/or defend themselves against the Old MNCs. K. M. Khan sees as more important the global tendency toward protectionism and the industrialization efforts of import substitution by the less developed of the developing countries. K. Wohlmuth, then holds that the main reason for the growth of the New MNCs is that the LDCs, given the stagnant markets in the industrialized countries, have had to switch their development strategy back again to a domestic market-oriented strategy (in other words, emphasizing agriculture, construction, and other infrastructural sectors in which the LDCs have competitive power).

As will be explained later, the international labor division background of the growth of the New MNCs is an important factor in any appraisal of the role that they could play in CSR.

III

Is the New MNC different in character from the Old MNCs? As S. Hymer has pointed out, when an enterprise is set on direct investment overseas, it should have a measure of confidence in its subsidiary's competitive advantage over local enterprises. Dunning, in his "eclectic theory," considers this advantage classifiable into three types: an ownership advantage, a location advantage, and internationalization. According to him, while the Old MNC bases its overseas investment on the ownership advantage which is supported by its technological capacity, product differentiating capability, financial resources, managerial and operational skills, the New MNC is supported by the location advantage. This view is shared by most of the contributors to this book. Summing up their views, the New MNC's location advantage comprises competitive power in price (based on low wage levels), in fields with standardized technology, the ability to develop technologies better suited to conditions in the LDCs and the economic, social, and cultural homogeneity or similarity of neighboring LDCs.

This recognition may be basically correct, but the question remains: Are these differences between New MNCs and Old MNCs invariable? Or are they just transitory, the former gradually becoming closer to the latter to become almost homogeneous? J. P. Nugent states that the Arab New MNCs' technologies center around capital-intensive technology and are not being reformed or adapted to LDC conditions. It does not seem likely that not only the Arab MNCs but other New MNCs as well may gradually change their character in the future. L. T. Wells, for instance, emphasizes the fact that the brands of some of the New MNCs have come to enjoy greater popularity in the world market over the past few years. According also to K. Wohlmuth and R. H. Green, the gaps between the New MNC and the Old MNC will be bridged as the former's technological standards are improved and its products find a larger market, forcing it to change its product types so as to meet the demands of the higher income bracket.

It was D. Lecraw who first emphasized that the New MNC's competitive advantage were labor-intensive technologies, small-scale production, price competitive power, etc. He made public what may be said to be the first work on the New MNCs (D. Lecraw, "Direct Investment by Frms from Less Developed Countries," *Oxford Economic Papers,* Vol. 32, No. 3). His notion of the character of the New MNC, however, seems to be a little too rigid.

IV

Will the New MNCs be able to play an effective role in CSR? Will they be able to serve as an important intermediary in technology transfer between developing countries? These are the more important questions which are dealt with in this book and on which some of the writers disagree.

M. Svetličič entertains the greatest hope for the role to be played by the New MNCs. She says that the weak techno-scientific foundations of the LDCs should be overcome by promoting intra-LDC joint ventures, in which the New MNCs could be a central actor. In cases where private capital has not been sufficiently effective in promoting intra-LDC joint ventures and CSR, says R. A. Suarez, state trading organizations could be made use of to realize economies of scale and efficient technology transfer.

At the same time, a considerable amount of reservation with regard to the New MNCs is expressed by some contributors. R. H. Green, for example, states that South-South trade and the activities of the New MNCs have not always benefited the LDCs, at least not the least developed among them. Wohlmuth, while recognizing the significance of intra-LDC technology transfer by way of the New MNCs, points to the possibility that a New MNC, set on operating in another LDC with strong political support from its own government, may become an instrument of economic domination in that country (as seen in Brazil-Paraguay relations). He also remarks that if New MNCs grow to become more and more similar to Old MNCs, they may prove to be unsuitable for CSR.

One actual form of CSR may take in expanded South-South trade. S. Chishti (Chapter 5) and M. H. Dunn and H. Körner (Chapter 6), both directly treat South-South trade but draw harshly contrasting conclusions. Chishti expects much from South-South trade on the strength of the fact that such trade, even excluding OPEC trade, has rapidly increased its share in world trade from 3.1 per cent in 1970 to 6.4 per cent in 1981. Dunn and Körner, on the other hand, take a pessimisitc view of South-South trade, reasoning that its increasing share in world trade is merely a reflection of the stagnation of the industrial nations' markets and of setbacks in their protectionist policies and that a considerable part of South-South trade is really performed by the Old MNCs.

We have seen that the contributors to this book do not agree on the potential role to be played by the New MNC in CSR, one side being optimistic, the other side skepitcal. Since, however, New MNCs are relatively young, the reviewer feels it is still too early to make an appraisal of the views expressed in the book. In order to do that the following points would have to be considered.

Firstly, as far as we can judge from the changes in the weight of intraregional trade, say of EC and COMECON countries, regional integration has been somewhat stagnant since the end of the 1970s through the 1980s. This has brought into relief the contradiction between the progress in the internationalization of production and technology on the one hand and the necessities of regional economic integration on the other. For example, while the importance of appropriate technologies for LDCs has been recognized, their development cannot be anticipated unless economic efficiency, through the introduction of technologies from industrialized countries, is enhanced. In fact, as Wohlmuth states, joint ventures by New MNCs are more commonly set up with Old MNCs than with fellow New MNCs. Wells also touches upon the necessary conditions for such joint ventures to be successful. More discussion is called for about how to balance the intra-LDC cooperation (CSR) against technology introduction from the industrialized countries (exchanges between New MNCs and Old MNCs).

Secondly, connected with the above-mentioned problem, the question of what are appropriate technologies for the LDCs needs to be clarified. However, as Dunn and Körner say, this question remains unsolved.

Thirdly, as Khan points out, if CSR by means of the New MNCs were to succeed, a closer cooperation would be required among developing countries through the creation or strengthening of linkages among New MNCs and between them and local economies. Further discussion would be necessary as to how to realize these requirements.

(Fumio Komoda)