

UNIVERSITY OF STRATHCLYDE
DEPARTMENT OF MARKETING

FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES:
AN ANALYSIS OF THE DETERMINANTS, IMPACT, POLICIES
AND ORGANISATION WITH SPECIFIC REFERENCE TO THE
CASE OF EGYPT

VOL. I

ABDELSALAM M. ABOU-KAHF

SUBMITTED IN ACCORDANCE WITH THE REQUIREMENTS FOR THE
DEGREE OF DOCTOR OF PHILOSOPHY.

OCTOBER, 1985.

TO MY WIFE HANAE, MY SONS RAMI AND HATIM
AND TO THE SPIRIT OF MY MOTHER

ACKNOWLEDGEMENTS

The researcher would like to express gratitude to his supervisor Mr. A. W. Gordon for his supervision, encouragement, advice and useful comments during the course of the current study. The researcher is also indebted to Mr. S. Young for his helpful comments on the draft-thesis and for his continuous encouragement which has helped to develop the researcher's knowledge in the field of international business studies.

Special thanks go to Professor M.J. Baker Deputy Principal of the University of Strathclyde who allowed the researcher to pursue his graduate study in the Department of Marketing. Thanks are due to all the secretarial staff for their willing assurance. Also to the Executive Managers of the British-based multinational companies operating in Egypt, the academic staff of the University of Cairo and Alexandria, the Executive Manager of the state-owned enterprises, the senior decision-makers of GAFI and GOFI, and the official representatives of GAFI abroad as well as the Egyptian-British Chamber of Commerce in London for their co-operation and the useful information they provided during the implementation of the field research.

Finally, thanks should go to both Mr. A. Callaghan who kindly helped in correcting linguistic mistakes and Miss F. Brooks who accurately typed this thesis.

ABSTRACT

In very general terms, the prime objectives of the present study is to assess and analyse the overall position of FDI (forms, impact, flows) practices, obstacles etc. in Egypt at present and the potential benefits it can contribute to the development there. i.e the study analysed the present contribution of FDI under the currently undertaken policies, practices, etc. and the prospects of such investment in the future. Including new approaches which have been suggested to enhance the potential positive impact of FDI. Additionally, in order to enrich the current study, it was thought useful to examine the experience of the British-based multinationals (BMNCs) operating in Egypt in respect of areas of questions such as reasons for their decision to undertake new FDI in Egypt, factors in Egypt-specifics, FDI policies and practices, etc affecting their FDI decision and implementation of marketing and personnel etc. policies there. On the finding realised from investigating the BMNCs' experience with the Egyptian environment, some of the proposed requirements for policy change in Egypt were based.

For achieving the above purposes, certain types of inputs were employed:

Review of literature and previous researches, information and data concerning FDI (climate, forms, impact and policies) in Egypt, interviews guided by structured questionnaires with the Egyptian academic staff, executive managers of the indigenous companies, senior decision-makers of GAFI, Cairo.

III

This is in addition to two types of questionnaires addressed to the executive managers of BMNCs and the official representatives of GAFI abroad. In this connection it may be useful to point out that the current study is the first attempt to investigate the general status of FDI using the methodology and approaches followed over the course of this study.

In view of the major findings realised, the analysis provides evidence to suggest the following: (1) the contribution of FDI to Egypt's overall development under the current policies and practices is modest. (2) most of the classic arguments against FDI and the role played by MNCs in areas such as technology transfer, capital inflow, employment and so forth are major causes for concern by Egyptian intellectuals and the managers of the state-owned enterprises, (3) yet, the overall attitudes towards FDI in general are positive and there has been a generally held agreement that FDI is crucial to Egypt's development in most areas of economic activity. This in turn may suggest that a great demand will be placed on such investment in Egypt in the near future, ie. many of the conventional and neoconventional views in favour of FDI in developing host countries have received relatively strong support in Egypt. (4) Barriers to FDI are numerous in Egypt. Some of these obstacles are peculiar to Egypt's general orientation towards such investment (namely policies, organization and implementation); others are related to the environment of FDI there.

(5) The conventional reasons for FDI in host countries eg.. profits and sales, cost factors, risk aversion etc. are applicable to the BMNCs studied, (6) It has also been demonstrated that the BMNCs are concerned with better conditions regarding labour and equity, as well as the political climate. Some factors in the marketing, economic and cultural climate in Egypt (market size, infrastructure, bureaucracy, urbanization) are also of great concern to the BMNCs' surveyed. (7) Based on the findings mentioned above, new approaches for policy changes towards FDI have been suggested on the assumptions that the adoption of such approaches will enhance the prospect of foreign investment in Egypt.

In order to reach such a conclusion, the current study has been organised in six sections: Section (A) presents an introduction including the main domains of the study objectives and inputs employed to achieve them. Section (B) highlights the literature and previous studies relevant to study objectives. In Section (C) an analysis of FDI environment (economic, socio-political, etc.) in Egypt is presented. This is in addition to the investigation and evaluation of both FDI impact and policies in Egypt since 1974. Section (D) is concerned with outlining the methodology (study variables, hypotheses, measurements, etc). as well as the limitations on the study findings. Section (E) has been devoted to presenting the empirical evidence i.e. analysing the findings of the field research. Finally, section (F) is devoted to pointing out the proposed new

approaches for policy changes towards FDI in Egypt.

While it is not possible to draw a general conclusion based on the present study findings (particularly those related to the BMNCs studied) due to some methodological considerations and obstacles which face any researcher undertaking international business studies, it is submitted that the current attempt has succeeded to a large degree in achieving the objectives sought.

STUDY CONTENTS

	<u>Page</u>
<u>Section (A)</u> The Scope and Objectives of the Study	1
Chapter (1) Introduction	3
Chapter (2) The Objectives of the Study	21
<u>Section (B)</u> Literature Review	34
Chapter (1) Factors influencing FDI in Developing Countries "with specific reference to the Middle East"	36
1.1 Reasons for FDI	37
1.2 Empirical evidence on the determinants of FDI	56
1.3 The role of "Factors" in marketing and investment climate in FDI decision making in the Middle East perspective	97
Chapter (2) The Impact of FDI in Developing Countries "with specific reference to the Middle East"	159
2.1 Alternative views on FDI impact	161
2.2 The benefits and costs of FDI in developing countries	190
2.3 Empirical evidence of FDI impact in developing countries	225
2.4 The benefits and costs of FDI in the Middle East: Empirical Results	269
Chapter (3) The Organization and Implementation of FDI policy in developing countries "with specific reference to the Middle East"	294
3.1 Investment policies and experiences in selected developing countries	295
3.2 Investment policies and experience in the Middle East	319

	<u>Page</u>
<u>Section (C)</u> FDI in Egypt: An Analysis of the environment, flows - impact and policies	345
Chapter (1) Characteristics of the Egyptian Economy	348
1.1 The economic characteristics	349
1.2 The political characteristics	407
1.3 The socio-cultural characteristics	420
1.4 The critical features of the Egyptian economy: summary	438
Chapter (2) FDI in Egypt: Flows and Impact	448
2.1 The benefits and costs of FDI in Egypt	449
2.2 Barriers to FDI contribution in Egypt	486
Chapter (3) FDI Policy in Egypt: Organization and Implementation	490
3.1 The salient objectives and fields of FDI in Egypt	491
3.2 Mechanisms, requirements and structural considerations with respect to FDI	496
3.3 Organization of the investment body	513
3.4 Concluding remarks	518
<u>Section (D)</u> Study Hypotheses and Methodology	525
Chapter (1) Study variables and Hypothesis	527
1.1 Study variables	527
1.2 Study hypotheses	528
Chapter (2) Field Research Design and Methodological Considerations	548
2.1 Study samples	550
2.2 Sources of selecting study sample	551
2.3 Sizes of the research samples and rates of response	553

	<u>Page</u>
<u>Section (D) Cont'd</u>	
2.4 Profiles of firms studied and the U.K. direct investment in Egypt	553
2.5 Measurements of study variables	557
2.6 Methodological considerations and limitations	568
2.7 Study approach	570
<u>Section (E) Empirical Evidence</u>	573
Chapter (1) Determinants of FDI	575
1.1 Reasons for FDI	576
1.2 The relevance of various incentives to FDI decision	584
1.3 Factors in marketing and the economic political and socio-cultural climate influencing FDI decision	586
1.4 The relative importance of factors in the economic, political and cultural climate: an overall comparison	597
1.5 Problems encountered in implementation, the BMNCs' marketing policies, investment expansion and related activities in Egypt	602
1.6 Factors affecting the selection of investment forms/routes	606
1.7 The relevance of the Egyptian Environment to FDI	614
1.8 Concluding remarks	618
Chapter (2) Impact of FDI	621
2.1 Attitudes towards the effects of FDI in Egypt	623
2.2 The relative importance of FDI's contributions to the development of Egypt	627
2.3 Anticipated costs of FDI in Egypt	638
2.4 The status of FDI: the contingency of its impact	655
2.5 Concluding remarks	661

	<u>Page</u>
Chapter (3) Requirements for Policy Change	664
3.1 Reasons behind the modest performance of FDI and the need for requirements for policy change	665
3.2 Requirements for policy change	690
3.3 Concluding remarks	701
<u>Section (F) Conclusion: New Policy Approaches</u>	704
1. Policies aiming at greater provision of opportunities for foreign firms to enter into Egypt (diversification of forms of foreign investment)	711
2. Policies aiming at greater achievements of specific contributions of FDI	714
3. Performance oriented policies	719
4. Organizational development	720
<u>Appendices:</u>	
- Appendix (A) - Supplementary data on the Egyptian economy and FDI	726
- Appendix (B) Law no. 43 of 1974 as amended by law no. 32 of 1977 concerning the investment of Arab and foreign funds and Free Zones	737
- Appendix (C)- Timetable and application forms for participation in Cairo International exhibition and fairs	754
- Appendix (D)- Questionnaire lists	761
- Appendix (E)- Tabular material of the field research	795
Bibliography	808

LIST OF TABLES

	<u>Page</u>
Table (B-1)	Characteristics of ten BMNCs 1981-82. 57
Table (B-2)	Engineering, construction, contracting and other technical service fees received by U.S., U.K., and other European firms. 59
Table (B-3)	Size of firm and overseas activities, 1978 and 1974. 61
Table (B-4)	Reasons cited by British parent Companies for their investment in India & Pakistan 66
Table (B-5)	Determinants of United States foreign direct investment - Summary of selected surveys 67
Table (B-6)	Ranking of factors which affect investment decisions in foreign countries 68
Table (B-7)	Ranking of selected political variables, foreign exchange variables and selected incentives 70
Table (B-8)	Attitudes towards MNCs of elites in Chile and Venezuela 73
Table (B-9)	Issues that caused conflicts between MNCs and the host countries 74
Table (B-10)	Issues that caused conflicts between U.S. investors and the host countries 76
Table (B-11)	The most important factors that led firms to make its first investment in production facilities. 78
Table (B-12)	Subsidiary (motivational) factors were important in first foreign venture 79
Table (B-13)	The development gap by groups of countries 86
Table (B-14)	Major OECD importers of automotive products from developing countries, 1979 93
Table (B-15)	GNP, GNP per capita growth rate for the Middle Eastern and other developing countries 100
Table (B-16)	Changes (%) in consumer prices of the Middle Eastern countries, 1978/1983. 102

Table (B-17)	GDP supply in Middle East (percentages)	104
Table (B-18)	Exports-imports and their relations to GDP, major suppliers and consumers of the Middle East	106
Table (B-19)	Fixed investment, consumption and capital formation: GDP in the Middle East	109
Table (B-20)	Demographic characteristics of the Middle East and other developing countries	111
Table (B-21)	Profile of the Middle East: economic and demographic factors	113
Table (B-22)	Profile of the Middle East: language and religion	117
Table (B-23)	Public expenditure on education in the Middle East and Europe.	119
Table (B-24)	Mass media in the Middle East and selected European countries	120
Table (B-25)	Telephones, telegrams, passenger cars and commercial vehicles in the Middle East and selected European countries, 1980	123
Table (B-26)	Arab elites attitudes towards nationalisation, internationalisation and foreign investment	133
Table (B-27)	Distribution of FDI and other resources from OECD countries among groups of developing countries 1978-80 (percentages)	172
Table (B-28)	Net direct investment from DAC to developing countries	226
Table (B-29)	Net receipts of geographically allocable DAC foreign direct investment, 1978 to 1981 (by developing countries groups and selected recipients)	229
Table (B-30)	Outflow of FDI, re-investment earnings and income payments in developing countries	231
Table (B-31)	Net receipts of FDI and GNP in selected developing countries	232

	<u>Page</u>	
Table (B-32)	Capital intensity of multinational subsidiaries of U.S. and non-U.S. in each industry and percentages of subsidiaries in less developed countries by industry	242
Table (B-33)	Employment by foreign-controlled enterprises in South Africa by country of origin	247
Table (B-34)	Employment trends for affiliates of multinational enterprises in various origins in the main developing countries of Africa, Asia, and Latin America (indices)	250
Table (B-35)	Employment structure and percentages of local and foreign technical and professional employees and managerial staff in MNCs in selected developing countries	251
Table (B-36)	Employment in free trade zones and similar sites of selected developing countries	253
Table (B-37)	Employment in Asian export processing zones	254
Table (B-38)	Share of MNCs in exports of manufactures from selected LDCs, 1972	258
Table (B-39)	Share of MNCs in exports of manufacture from selected developing countries	258
Table (B-40)	Exports of Taiwan, South Korea, and Singapore due to foreign investment	259
Table (B-41)	Average hourly earnings in selected industries and countries	260
Table (B-42)	FOB value of exports by subcontracting industries to the U.S. products manufactured using imported elements 1970-1976: the case of Haiti	262
Table (B-43)	Annual average production growth rates in manufacturing and selected branches for several developing countries, 1968-1977 (percentages)	263
Table (B-44)	Some aggregate effects of foreign private investment in selected developing countries - results of two studies	264
Table (B-45)	Stock of FDI by OECD - DAC Countries in developing countries regions, 1970-76	270

	<u>Page</u>
Table (B-46) Distribution of jobs created in export firms according to nationality of promoter (1973-76): the case of Tunisia	275
Table (B-47) Categories of licensing agreement between the selected industries and the foreign firms	329
Table (C-1) Gross domestic products (GDP) distributed by sectors, 1977-1981/82	351
Table (C-2) The GNP realised in Egypt during 1982/83	352
Table (C-3) GNP at cost, constant (1981/82 prices) value in £EM.	355
Table (C-4) Private sector investment in industry 1970-1981	357
Table (C-5) The resources and total uses in 1986/87 plan compared with the same in 1981/82	360
Table (C-6) The general frame of Egypt's five year plan 1982/83 - 1986/87	362
Table (C-7) Private sector's investment role in the Five Year Plan, 1982/83-1986/87	366
Table (C-8) Egypt's GNP and GDP growth	370
Table (C-9) Annual price changes	371
Table (C-10) Components of Urban consumer price index	371
Table (C-11) The size of labour force and its growth rate in Egypt 1979/82	375
Table (C-12) Structure and growth of employment in Egypt 1973, 1981/82	376
Table (C-13) Average wage per employee, 1973-1980/81	378
Table (C-14) Egypt's climate in selected cities	380
Table (C-15) Evolution of tourists, revenues, main nationality groups 1977/81 and planned accommodation capacity, 1973-81	382
Table (C-16) Egypt's exports of goods 1973-81	385
Table (C-17) Egypt's imports of goods 1973-81	386
Table (C-18) Egypt main trading partners 1973-81	388

	<u>Page</u>
Table (C-19) OECD trade with Egypt, 1982-83	389
Table (C-20) Egypt's balance of payments, 1981-82-1983/84	396
Table (C-21) External debts	400
Table (C-22) International reserves 1978-83	401
Table (C-23) Public foreign debt servicing projection 1981/82 - 1986/87	402
Table (C-24) Gross fixed investment in Egypt	406
Table (C-25) The economic burden of defence expenditure in Egypt and Israel	416
Table (C-26) Education statistics in Egypt as of 1981	421
Table (C-27) Basic and secondary educational enrolment targets	423
Table (C-28) Distribution, audience, newspapers and magazines (quantities and location) 1980/81	432
Table (C-29) Daily radio transmissions and daily television broadcasts	433
Table (C-30) Egypt: oil and gas output 1979-1987	435
Table (C-31) Planned development in electricity sector 1980-2000	435
Table (C-32) Petroleum consumption	436
Table (C-33) Output and consumption of electricity	436
Table (C-34) Number of hospital beds and their distribution in Egypt	439
Table (C-35) Five year plan targets for health sector 1982/83 - 1986/87	439
Table (C-36) Distribution of investment projects by type of activities, nationality of investors, 1974 up to 1983.	466
Table (C-37) Distribution of foreign capital of the approved inland and free zones projects by nations and types of projects' activities up to 31.12.1983	461

	<u>Page</u>	
Table (C-38)	Exported capital vs. total capital allowed and total capital realised under the law no. 159 of 1981 since 30.11.1982 up to 30.6.1983	463
Table (C-39)	Foreign capital inflows and its share in the investment projects in Egypt up to 31.12.82.	466
Table (C-40)	Number and total capital of the investment projects withdrawn during 1983.	467
Table (C-41)	Foreign capital shares per investment per project 1982-83.	468
Table (C-42)	The average total investment per project 1982-83.	469
Table (C-43)	Domestic investment approvals by sector, number of licenses, total investments, and employment, 1973-1975.	470
Table (C-44)	Distribution of the estimated and the realised number of job opportunities and the annual wages of the inland and free zones projects that started production up to 1982 and mid 1983.	474
Table (C-45)	Import substitution and export earnings 1982 vs. 1981	476
Table (C-46)	Products and services realised during 1981 and 1982	476
Table (C-47)	Estimated and realised values of products and services of FDI projects that started production, 1981-1982.	477
Table (C-48)	Private sector's share in the FDI approved projects in Egypt since 1974 up to mid-June 1983.	481
Table (C-49)	Geographic distribution of the inland FDI investment project 1983.	483
Table (D-1)	Research sample sizes and rates of response	554
Table (D-2)	Profile of BMNCs studied and the size of the U.K. direct investment in Egypt.	556
Table (D-3)	Profile of the state-owned enterprises surveyed	557

	<u>Page</u>	
Table (E-1)	The reasons and/or motivations behind the BMNCs' decision to undertake investment in Egypt	578
Table (E-2)	Scores and ranks of BMNCs' motivations and reasons for their decision to invest in Egypt - H. test	580
Table (E-3)	An ANOV summary	581
Table (E-4)	The relative importance of incentives to the BMNCs' FDI decision	585
Table (E-5)	Marketing and economic factors affecting the BMNCs' decision to invest in Egypt	588
Table (E-6)	Political factors taken into consideration influencing the decision of BMNCs' concerning the location of investment in Egypt	593
Table (E-7)	Socio-cultural factors taken into consideration and/or affecting the decision of BMNCs to invest in Egypt	596
Table (E-8)	Economic, political and socio-cultural factors affecting the BMNCs' decision to invest in Egypt - an overall comparison	598
Table (E-9)	Rank, weighted scores, \bar{X} and rs of factors affecting FDI decision	599
Table (E-10)	An ANOV summary of the determinants of FDI	601
Table (E-11)	Factors considered in selecting the forms and/or methods of the BMNCs' investment in Egypt	607
Table (E-12)	An ANOV summary: unequal sample sizes	609
Table (E-13)	H-test	610
Table (E-14)	Broad factors affecting the BMNCs choice of investment form and/or routes of entry into Egypt's market	612
Table (E-15)	The relevance of Egypt's economic climate to FDI: academic staff point of view	615

		<u>Page</u>
Table (E-16)	The relevance of Egypt's political climate of FDI: Academic staff viewpoint	615
Table (E-17)	The relevance of Egypt's cultural climate: academic staff point of view	616
Table (E-18)	Attitudes towards the effects of FDI in Egypt: Academic staff point of view	624
Table (E-19)	Attitudes towards the effects of FDI in Egypt: the viewpoints of the executive managers of the state-owned enterprises	625
Table (E-20)	Academic staff attitudes vs. executive managers attitudes : X^2 -test	626
Table (E-21)	Academic staff view of the importance of FDI to Egypt	629
Table (E-22)	An ANOV summary	630
Table (E-23)	Scores and ranks of the benefits of FDI: H-test	631
Table (E-24)	The relative importance of the broad areas of FDI's benefits	632
Table (E-25)	The contribution of BMNCs to Egypt's development: overall judgements of the British managers	634
Table (E-26)	Academic staff point of view towards anticipated undesirable influences of foreign firm's activities in Egypt	640
Table (E-27)	Rank of the broad areas of FDI's influence on the development of Egypt	644
Table (E-28)	An ANOV- for unequal sample sizes - summary	645
Table (E-29)	H-test : Summary	646
Table (E-30)	Major problems encountered by the state-owned enterprises attributable to FDI over the period 1978/79 - 1983/84	648
Table (E-31)	H-test	650
Table (E-32)	Areas of conflict that have arisen between state-owned enterprises and foreign firms since 1974	651

		<u>Page</u>
Table (E-33)	Broad areas of problems that will be encountered by the state-owned companies attributable to the presence of foreign firms during the five year period commencing 1989-90	652
Table (E-34)	The dependence of FDI benefits on the size of invested capital, types of projects, forms of FDI allowed and the viability of the host country's overall environment	661
Table (E-35)	Methods employed for reaching foreign investors and promoting investment opportunities abroad.	669
Table (E-36)	Scores and ranks by use of the methods employed for reaching foreign investors and promoting investment opportunities abroad	670
Table (E-37)	Proposed pre-conditions concerning the activities and practices of foreign firms	691
Table (E-38)	Weighted scores and ranks of the pre-conditions and/or performance oriented policies	693
Table (E-39)	Requirements for policy and organization changes	695
Table (E-40)	An ANOV Summary	697
Table (E-41)	Policies required to enable the state-owned enterprises to cope with the competition potential and adverse impact attributed to FDI/foreign firms activities in Egypt	699

LIST OF EXHIBITS

		<u>Page</u>
Exhibit (B-1)	Basic variables of geobusiness model	53
Exhibit (B-2)	BMNCs observations about Arabic consumers	139
Exhibit (B-3)	Influence of MNCs characteristics on host countries goals	165
Exhibit (B-4)	MNCs investments influences in developing countries: mechanisms and consequences	167
Exhibit (B-5)	MNCs investments influences in developing countries the neoconventional viewpoint.	185
Exhibit (B-6)	Incentives for foreign investment and comparison between exp. oriented & import sub.policy	315
Exhibit (C-1)	The cost and benefits of government policy choices in the economic liberalization	451
Exhibit (C-2)	Principal requirements for joint stock companies and limited liability companies organized under law 43	506
Exhibit (C-3)	Criteria for granting incentives to foreign investment in agriculture and related industries, selected developing countries, mid 1970s	521
Exhibit (D-1)	Study variables	528
Exhibit (D-2)	Reasons for FDI decision	532
Exhibit (D-3)	Determinants for selecting the method of entry and FDI decision in Egypt	536
Exhibit (D-4)	Research population and methods of samples used	551
Exhibit (D-5)	Sources of selecting the research samples	552

LIST OF FIGURES AND DIAGRAMS

		<u>Page</u>
Figure (A-1)	Inconformity gap between MNCs and host states	11
Figure (A-2)	Forms or methods of entry into the Egyptian market: the current situation	30
Figure (A-3)	Inputs for the current study	32
Figure (B-1)	Manifestations/sources of monopolistic advantages for MNCs	49
Figure (B-2)	Effects of FDI on economic development	178
Figure (B-3)	The factor proportion problem	198
Figure (B-4)	Total employment effects of MNCs	208
Figure (C-1)	Inter-agency approvals required for law 43 investment	504
Diagram (C-1)	Egypt's public education pyramid, 1983.	422
Figure (E-1)	Elaboration of the circular process of investment proposals approvals: the current situation	686
Figure (F-1)	New forms of FDI/new methods for entry into the Egyptian market	712

LIST OF GRAPHS

		<u>Page</u>
Graph (B-1)	Comparative rate of growth of output, sectoral value added and changes in gross domestic investment 1963-1982.	114
Graph (B-2)	Net receipts of FDI by Iran, S. Arabia, and Egypt, 1978-81.	135
Graph (B-3)	The trends of net direct investment flows from DAC countries to devel. countries, 1971-1981.	227
Graph (C-1)	Egypt - five year development plan 82/83-86/87.	364
Graph (C-2)	Egypt: the macroeconomic targets of the five year plan	368
Graph (C-3)	Egypt's population growth, 1800-2000	374
Graph (C-4)	Egypt's value of total imports and exports 1978/79 - 1981/82	383
Graph (C-5)	Main sources of foreign exchange	398
Graph (C-6)	Rates of increase in consumer prices, 1977-1984	404
Graph (C-7)	The macroeconomic outcome of the open door, Egypt: 1966 yo 1981/82	453
Graph (C-8)	Foreign capital-approved projects up to 31.12.83	456
Graph (C-9)	Foreign capital inflow: projects in operation and others under implementation - 31.12.1983	457
Graph (C-10)	Number of approved foreign investment projects - 1975 up to March 1985 under law no. 43/1974.	458

LIST OF CHARTS AND MAPS

		<u>Page</u>
Chart (B-1)	IPLC curves	49
Chart (C-1)	Egypt's government executive structure	409
Chart (C-2)	Egypt's legislative structure	409
Chart (C-3)	Egypt's judicial structure	413
Chart (C-4)	Organization for the investment authority (GAFI)	516
Map (C-1)	Egypt.	346

Section (A)

THE SCOPE AND OBJECTIVES OF THE STUDY

HIGHLIGHTS FOR SECTION A

The prime objective of this section is to outline the nature and purpose of the current study. More specifically, this section presents a discussion relating to the framework and the salient objectives of the present research which is concerned with the foreign investment position in Egypt (forms, flows and impact) and Egyptian policy towards such investment. The experience of British-based multinationals (BMNCs) in the Egyptian market will also be outlined. Thus the present section involves two chapters:

Chapter 1 Introduction.

Chapter 2 The Objectives of the Study.

CHAPTER 1

INTRODUCTION

Primarily, the current study is concerned with FDI (forms, flows and impacts) in Egypt. It presents an analysis and information on FDI trends and distribution and its contribution to the development of Egypt since 1974. An assessment of FDI position and the prevailing policy stance is also presented with a view to making policy changes which will probably improve FDI's contribution to Egypt. Moreover, an attempt is also made to examine the climate and factors influencing FDI decision in Egypt together with a relatively comprehensive review of the overall economic and socio-political conditions in Egypt over the past decades.

To enrich the present study, it was thought that a precise analysis of FDI determinants, costs and benefits, and forms or policies in developing countries, with specific reference to the Middle East, is also important to be incorporated in the literature review in order to supplement the evaluation of the overall FDI situation, as well as to help in terms of proposed policy changes and courses of action in Egypt. In addition to this, an attempt is made to examine the BMNCs' experience with regard to several aspects of their activities and investment (e.g. factors affecting FDI decisions, choice of investment form, etc.) in Egypt. The opinions of the Egyptian intellectuals, the executive managers of state-owned enterprises, the

General Authority for investment and Free Zones (GAFI) and its official representatives abroad toward FDI impacts, obstacles, etc. have also been examined in this study*.

Without embarking on more detail as far as the current study is concerned, it has been considered relevant to this introduction to present the following summary of considerations (relating to FDI in developing countries in general) which have been highlighted in detail in the context of the literature review in the next section. This in addition to a discussion regarding the place of international business studies within management science as a conclusion of this chapter.

FDI definition and associated considerations

A great deal of attention has been paid by scholars, practitioners and economists among others to the role played by Foreign Direct Investment (FDI) with respect to socio-economic development in the host countries especially the developing host countries including Egypt.

At the outset, FDI is distinguished from portfolio investment. According to Hood and Young⁽¹⁾, for example, FDI "involves ownership (in part or whole) and management of a foreign operation, in addition with direct investment

* See the study inputs which have been employed to accomplish these purposes as shown in Figure (A.3) in the next chapter.

abroad a package of resources is transferred, whereas with portfolio investment the resources are transmitted independently of each other".

In principle, however, FDI involves some or full control over foreign operations and activities in the host countries. It involves full control over the operation and related activities of wholly-owned subsidiaries by the foreign investors (either through the take-over of existing local firms or by establishing new greenfield ventures). On the other hand, FDI may involve part control in the case of minority or majority-owned investment venture e.g. joint venture agreement⁽²⁾.

In the case of portfolio investment^(*) "this involves the acquisition of foreign securities by individuals or institutions without any control over or participation in the management of the companies concerned"⁽³⁾. While the FDI involves a significant degree of control by the foreign investor of the related activities, together with a transfer of eg. technology, expertise, and other resources etc., it has also a permanent character in contrast to investments of the portfolio type⁽⁴⁾.

Although, the present study is concerned with FDI, in Egypt particularly, it may be useful to note that

(*) Reasons and motivations for portfolio investment are outwith the present study's concerns.

during the 1970s in general, portfolio investment, as well as bank lending and export credits have been growing more rapidly as sources of foreign capital inflows to developing countries. The share of FDI for example in the total resources flows (private and official) of OECD to developing countries declined from 21% of the flow in 1970 to 13% in 1976/1977⁽⁵⁾. A comparison between FDI flows and bilateral portfolio investment from DAC⁽⁺⁾ countries to developing countries in 1981 reveals that FDI flows totalled \$14,639 billion, while bilateral portfolios accounted for over \$24 billion.^{(6),(7)}

Furthermore, although there has been an increasing involvement of multinational corporations (MNCs) in non-equity arrangements, such as licensing management and marketing contracts, etc. is mainly on the basis of international investment that the activities of these firms are carried out both in their home and host countries, including the developing countries⁽⁸⁾.

Although it is outside the scope of this introduction to throw light upon the reasons for FDI from the viewpoints of both the MNCs and the host developing countries (this is left to the next section of the current study), it has been considered useful, initially to note that the role played by FDI in the development process in developing countries has long been a subject of controversy. Literature and previous research have revealed widely differing viewpoints.

(+) DAC = Development Assistance Committee of the OECD Members.

As one will find in the next section of this study, the critical literature i.e. the classical theory of FDI - Particularly when channelling through MNCs - assumes that a zero-sum relationship exists between the MNCs and the host countries. Critics of MNCs suggest that e.g. FDI brings in little capital, remits excessive profits and capital, attempts (by MNC) to retain monopoly over their technology or brings in inappropriate technology, results in inappropriate patterns of consumption, widens the income gap between social classes, creates technological, and economic dependence on foreign nations and so forth. A host country's economic and socio-political capabilities are likely to be affected adversely as a result of practices by the MNCs⁽⁹⁾.

On the other hand, the neoconventional theories assume that mutual interests evolved in the relationship between the two parties of the investment venture. Both the host countries and the MNCs rely on each other to achieve certain objectives through FDI. In other words, this view assumes that a non zero-sum game exists between the MNCs and the host states. FDI (through MNCs) according to this view, favours the use of local resources and creates extensive linkages with the local economy, it results in net capital inflow, provides access to export markets and provides a number of training programmes to exploit the local human resources, etc. As a result of these types of contributions the host states's economic

and socio-political capabilities will be enhanced or developed⁽¹⁰⁾.

Broadly speaking, if the proposition is accepted that the case of Egypt is typical of many developing countries and in consequence it can be considered as a useful example to be employed in the present study, it may be important as based on the literature and previous research to refer to the following debatable points (in connection with FDI in general terms):

1) It has been argued that FDI constitutes a resource flow which is particularly useful for economic development of developing countries, especially for their industrial development. It provides a unique combination of long-term finance, technology, training, know-how, marketing experience, etc. Moreover, the balance of payments costs of FDI in the form of e.g. profit remittances is a function of the commercial success of foreign venture rather than occurring as fixed interest payments, as e.g. in the case of borrowing. Developing host countries seem increasingly to recognise these advantages⁽¹¹⁾.

As the next section reveals, data on FDI provides evidence to suggest that recent years have witnessed a rapid growth of FDI flows to developing host countries. Developing countries' experiences and policies towards FDI demonstrate an increasing competition between these countries to attract more FDI by means such as offering a wide array of incentives, privileges, guarantees, etc. to MNCs.

Experience also shows that some of the host governments imposed measures and conditions to improve or direct the flow of FDI to specific economic sectors and locations^(*).

2) Based on (1), a developing country such as Egypt has to compete with other host developing countries in attracting more FDI, not only through offering special or unique incentives to the incoming MNCs but also by improving the investment climate and political and social security as well as profitable opportunities and other facilities which are associated with the FDI's various activities. This is probably because, for example, MNCs will be increasingly selective regarding the location of their investment ventures abroad.

3) It seems important that a developing country such as Egypt which has chosen to use FDI as an instrument of socio-economic development should create mutually beneficial investment terms to meet both the potential benefits it seeks to realise through FDI and the needs of MNCs.

4) If the argument is accepted that a developing country e.g. will have to rely on FDI in general, and the MNCs will probably desire to expand their investment (to exploit their competitive advantages for example) abroad it is possible that differences of interests between the MNCs and the host state are likely to exist. In this connection, literature and previous research have revealed several areas of conflict in terms of the MNCs expectations and those of host governments. According to Zenoff⁽¹²⁾,

* Detail is to be found in chapter (3) in section (B).

and Negandhi and Baliga^{(13),(14)}, for example, host countries frequently want the MNCs to agree to the following conditions in order to maximize their returns from FDI:-

(a) Increase general employment, enhance career development and provide attractive opportunities for local nationals.

(b) Increase research and development (R & D) efforts and development facilities.

(c) Local equity partnership to varying required degrees.

(d) Develop local resources using local inputs and entrepreneurial activities.

(e) Provide new technology.

(f) Increase quality of consumer goods and services at lower prices.

(g) Increase capital inflow.

(h) Introduce operations that will contribute to maximization of the country's exports.

(i) Rely on local purchases rather than imports for industrial components.

(j) No involvement in local politics.

In return, the MNCs may have to exact the following demands from the host countries e.g.:

(a) reduce bureaucratic controls and interference in corporate affairs.

(b) provide efficient infrastructural facilities.

(c) provide conducive labour legislation and more

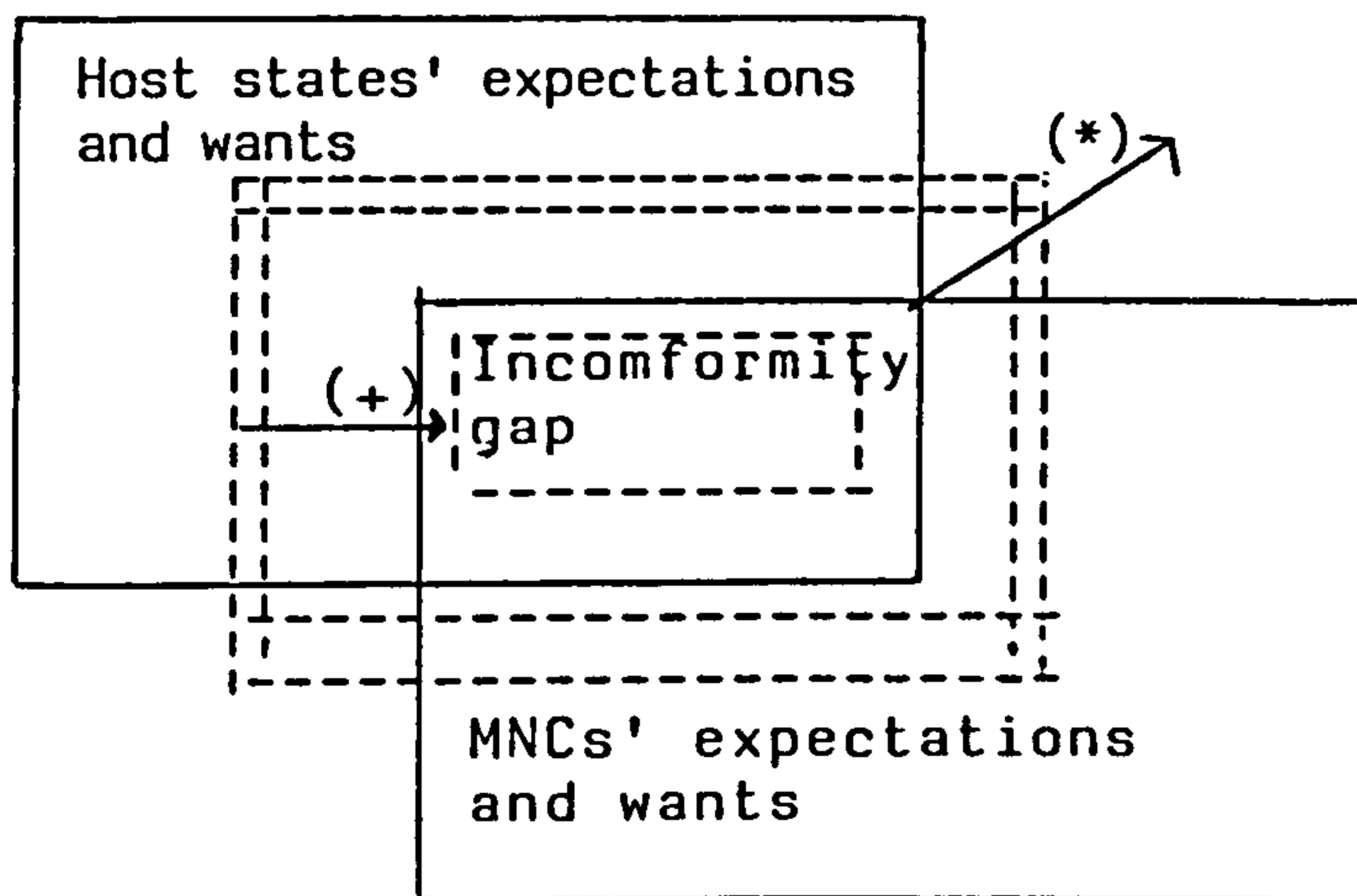
flexible expansion policies.

(d) reduce price and production controls.

(e) permit 100% ownership and management control of MNCs subsidiary operations (ie. MNCs may prefer to retain full or majority equity and managerial control).

Given these differences in patterns of expectations between the MNCs and the host countries - taking into account that both parties may be able to meet some of these expectations or demands - it could be argued that divergences in expectations and wants may widen or create what can be called the "inconformity gap" between the two parties of investment ventures as simply illustrated in figure (A.1).

Figure (A-1) Inconformity gap between MNCs and host states.



(+) The more the convergence of expectations and wants among the two parties, the greater the possibility of closing the gap.

(*) The more the divergences of expectations and wants between the two parties, the greater the possibility of expanding the gap.

Source: Constructed by the researcher.

5) Uncertainty about the costs and benefits of FDI and some degree of conflict between MNCs and the host states are probably inevitable^(*).

Factors influencing FDI decision in developing countries(+)

Theories and approaches of FDI are now well-developed. In this connection, literature and previous research - as demonstrated in detail in Chapter One in Section B - have discussed exhaustively several factors affecting MNCs investment decisions in the developing host countries under different headings and approaches e.g. the market imperfections approach, internalisation approach, the product life cycle approach, locational approach, etc. Under the market imperfections approach, for example, it has been argued that the decision of the MNCs to invest abroad is a move to take advantage of certain capabilities (in marketing, production inputs and technology, etc.) which local companies do not possess. The product life cycle model assumes that when competition in e.g. price, and other production inputs becomes more intensive in the home market, a MNC concerned may shift its production abroad i.e. to less competitive markets. Furthermore, for most MNCs - according to the locational approach - it is usually considered or argued that MNCs invest in developing countries for several reasons. Among these reasons, for example, is the desire of MNCs to get access to raw material and to take advantage of factors

(*) More detail can be found in Chapter Two in Section (B).

(+) Consideration in this respect are relevant to the previously-outlined points especially no. (2), (3), and (4).

costs especially labour costs, in addition to other factors in marketing such as the size of host market and its potential prospects, etc.

In general, from the MNCs point of view it would appear that reasons for FDI in developing countries (including Egypt) are numerous. At the same time, some of these reasons apparently tend to remain valid over a period of time, while many other may appear somewhat arbitrary. In other words, it is probably that a host country may offer what appears as a good location for establishing a manufacturing plant, without providing for example substantial financial facilities, infrastructure facilities, big market size, etc.

FDI policies and official measures by developing countries (*)

As related to (1.2), it could be argued that among the factors affecting FDI locations and decisions are host developing countries' policies and measures relating to FDI and trade. On the one hand, it is possible that a developing country - such as Egypt - may offer an attractive market potential for an MNC concerned, but because of the restrictions imposed on for example trade, foreign ownership in the investment ventures or because of the absence of certain incentives, privileges and investment forms, etc. the host government may not be able to attract the desired FDI size and quality to achieve its objectives. Taking into account the existing deficiencies in the investment

(*) Further detail is to be found in Chapter Three in Section (B).

overall climate, it is however possible to argue that the host government will not be able to negotiate with the MNCs from a position of power.

On the other hand - as the previous considerations indicate - major concern of developing host nations with FDI's possible adverse impact on their economic and socio-political development, and therefore some host governments impose measures to restrict MNCs investments and related activities into certain economic sectors or industries. i.e. they may for example, require the MNCs not to remit certain percentage of the realised profits abroad, or to engage local management and use labour or domestic production inputs instead of importing them, etc^(*).

Broadly speaking, it could be argued that the extent to which both the MNCs and the host country concerned can achieve their desired wants and objectives depends upon the prevailing economic, social and political development or environmental conditions including policies and practices towards FDI.

The place of international business studies within management science

Studies in the field of management science concentrate primarily on the micro level (ie. individual enterprise) by analysing in detail the functioning of several functional units of a given organization such as marketing, finance,

(*) Further detail is to be found in chapter three in Section (B).

personnel, and so forth. This is in addition to the study of management fundamentals or functions of which planning, organizing, co-ordination, etc.

On the macro level, attempts have also been made to investigate the interaction between the individual organization and government agencies and public organizations and policies. Above all, considerable attention has also been paid since the early 1950's toward other areas of management research topics such as human relations, social psychology, culture, etc. Coincidentally with other human and business disciplines e.g. economic, laws, etc.

Most of the above-mentioned areas of study have been implemented at national level. Only a few active attempts have been made, in the early 1960s to undertake management research outside national borders, ie. by cross-national studies in a comparative manner.

Taking into account, the reasons that have intensified the importance and the striking development of internationalization of business, for the firms that have passed beyond their national borders there has emerged a need to develop new strategies and tactics related to foreign operations and associated activities in the host countries environmental conditions which differ from their domestic ones.

In other words, in moving abroad, the management of the firms concerned (ie. MNCs) will be involved in the planning of e.g. manufacturing activities, bases and

facilities, logistical systems, financial flows, marketing policies and activities, etc. The firms may have to develop new personnel policies in terms of recruitment, remuneration, and training etc. of local nationals, according to the host country's prevailing labour conditions for example. This may apply even in the case of recruiting the company's executives (to manage its overseas operations) developing training programmes and new personnel policies. Co-ordination between the MNCs' headquarter and their subsidiaries around the world etc. is also required. To maintain a high level of sensitivity to the local climate, a MNCs' management must develop rapport, communication and access to opinion leaders, government policy-makers and technocrats wherever it operates⁽¹⁵⁾.

Above all, all aspects relating to the fundamentals of management ie. managerial functions (planning, organizing direction, co-ordination and control) are inseparable from all of the companies main activities. In sum, it could be argued that all management principle can be found in international business studies, but nevertheless, particular attention should be paid by the MNCs concerned to the differences between its home economic, social and political environment, and the host one. These differences may exert tremendous influence upon the implementation of e.g. for managerial functions, manufacturing, marketing, and other activities of the MNCs. In other words, the adaptation of MNCs' policies and practices to host country requirements can take many forms affecting product lines, pricing,

financing, industrial relations, etc. MNCs management' need however, to integrate, and not artificially separate, functional management and general management in international business planning of decision-making and so forth. Also, MNCs' will be involved directly in developing business strategies, tactics, and management styles that are responsive to local business requirements and local public interests etc. in the host countries⁽¹⁶⁾.

On the part of the host countries (which welcome and increasingly rely on FDI as an instrument for development) in order to attract or deal with the incoming MNCs there is need to plan processes and determine priorities, develop regulatory system and administrative procedures, promote programmes, etc. i.e. the question of how a host government can deal with and attract foreign investors requires several courses of action⁽¹⁷⁾.

Examples of these possible courses of action can briefly be outlined as follows¹⁸: (a) the government should create a hospitable investment climate through, for example, a combination of institutional factors, rhetoric and conduct. Among the institutional factors, it can pass laws and regulations, keep bureaucratic burdens and administrative procedures, and government interference to a minimum, etc. (b) The screening process for approval of foreign investment proposals require an Investment Review Board, Foreign Capital Approval Agency, or some similar board or Ministry to be established to perform such procedures. (c) An

important policy question for a host government is also the extent to which it attempts to select the types of foreign investment it will admit and to direct investors into desirable economic sectors or industry. In this respect macro planning and co-ordination between the economic sectors and units are therefore needed, (d) evaluation of the actual performance of FDI projects against the planned one is also important (e) A government may undertake efforts to promote its investment opportunities by means such as advertising in the international business press, establishing investment promotion centres abroad, and the like, (f) Training and promotion of a host country's citizens in order to replace or participate with expatriate managers and technicians as rapidly as possible may also be a major responsibility of the host government and (g) All of the previously mentioned actions and functions (including the government's day-to-day dealing with foreign investors) involve or require continuous decision-making processes.

In general, despite the generally held opinion that there is no single right way for a government to go about formulating policy and practices, etc. With respect to FDI, the above subjects have been studied and discussed extensively in writings on public policy and planning. Most approaches are based on some sort of reiterative process; plan, execute, evaluate, and use the evaluation to modify the plans and the execution in the light of observation and experience, etc. (19).

References

1. N. Hood and S. Young, The Economics of Multinational enterprise. Essex, U.K. : Longman Group Ltd, 1981,p.9.
2. Ibid., pp. 9-10.
3. Ibid., p. 9.
4. International Labour Office (ILO), Employment effects of Multinational Enterprises in Developing Countries, Geneva, 1981, p.1.
5. Organization for Economic Co-operation and Development (OECD), "Investigating in Developing Countries", in ILO, Employment effects, loc.cit.
6. OECD, Investing in Developing Countries, Paris, 1983, table (1), p. 17.
7. C. Oman, New forms of International Investment in Developing Countries, OECD, Paris, 1984, p. 31.
8. ILO, Employment effects.. Loc.Cit.
9. Other valuable information concerning reasons for FDI form the MNCs perspective to be found in Chapter (1) in Section (B).
10. An analysis of the costs and benefits of FDI is also to be found in chapter (2) in the context of section (B).
11. OECD, Investing in Developing Countries, Paris,1983,p.7.
12. D.B. Zenoff, Management principles for finance in the multinational, London : Euromoney publications Ltd., 1980, pp.73-74.
13. A.R. Negandhi and B.R. Baliga, Tables Are Turning: German and Japanese Multinational Companies in the United

States, Cambridge: Delgeochlager, Gunn & Hain, Publishers, Inc., 1981, pp. 103-111.

14. _____, Multinational Corporations and Host government relationships : A Comparative Study of U.S., European and Japanese multinationals, European Research in International Business, Amsterdam: North-Holland Publishing Co., 1978, pp. 29-46.
15. D.B. Zenoff, Management Principles op.cit., p.74.
16. Ibid, p,75.
17. W.A. Stoever, Endowments, priorities, and policies: Formulation of Developing Country Policy Toward Foreign Investment, Columbia Journal of World Business, Vol. XVII, No.3, 1982, pp. 3-14.
18. Ibid., pp. 10-13.
19. Ibid., p. 9.

CHAPTER 2

THE OBJECTIVES OF THE STUDY

Introduction

At the outset of this chapter, it may be useful to state that during the 1954-1971 period, there were marked government efforts to build up new industries and promote overall socio-economic development in Egypt. But during that period, suppression of foreign and national private sector participation (by means such as nationalization, expropriation and confiscation for example), and heavy involvement by the government in economic affairs took place. With the ascendancy of state paternalism and continual political turmoil, and the consequent isolation of the Egyptian economy from foreign and domestic sources of creativity general progress impeded⁽¹⁾ i.e. overall development in Egypt (economic and social) has been adversely affected. The drastic decline in the role of foreign and private business, decline in efficiency and competitiveness of much of Egyptian industry and in the productivity of both labour and capital inputs, the slowing down in overall progress and so forth are also evident during the fifteen years between about 1956 and 1971^{(*)(2)}.

(*) Carr in this respect has adduced for example that: (a) the average percent rates of output per man-hour in 1939-45 was 3.6%, in 1945-54 grew to 5.2 and between 1954-62 fell to 4.4% and then fell again to 5.5% between 1963-1970 period (b) the average annual rate of growth in real gross domestic product has been about 5% over the 1947-52 period, and about 2.0% over the 1952-57 period. During 1963-71 it reached 3.3%, while for the period 1971-77 the average rate reached 6%.

In short, during 1956-1971 the period of Nasser's presidency, Egypt witnessed a sharp increase in the role of the government in economic life. Foreign investment also was almost completely squeezed out.

After the October War of 1973, the promulgation of the Foreign Investment Law No. 43 of 1974, and the bold peace initiative by President Sadat in November 1977, (which produced the Peace Treaty with Israel), Egypt entered a totally new economic and socio-political era⁽⁺⁾. Since the mid 1970s a marked change in government attitudes towards FDI particularly has taken place. FDI climate has been improved by a number of changes in laws and regulations, etc. in order to encourage foreign firms to invest in Egypt.

As one will find out in the development stage of this study, FDI has been considered as an instrument of the solution to Egypt's grave economic and social difficulties which were inherited from the 1956-1971 period particularly.

In view of how Egypt's 1974 new policy towards FDI and its potential contributions is perceived by the Egyptian scholars, economists and businessmen among others, it is not surprising that one may find many contradictions and differences of opinion with respect to the relative importance of FDI to the ~~eco~~-social development of Egypt^(*). i.e. the FDI policy adopted in 1974 in Egypt aroused controversy. At the one extreme, there are those who are opposed to FDI

(+) More detail to be found in section (C), and appendix (B) in relation to the law No. 43 of 1974.

(*) Further detail to be found in section (C).

especially when channelling through the MNCs; on the other hand, there are those who supported the potential role which can be played by FDI in achieving general progress in Egypt irrespective of the medium through which it is channelled.

In general, the argument for and against FDI in Egypt is relatively similar to the generally held arguments concerning the costs and benefits of FDI in developing countries. Leaving aside this argument, it is nevertheless important to mention that detailed discussion of this is to be found in Section (B), and Section (C) in the case of Egypt.

Taking as a whole the discussion of chapter (1) together with the above introduction the present chapter is concerned with underlying the objectives of the current study. The purposes of the current study can, however, be outlined under the following five major headings:-

- ① Examination of FDI determinants: ② Factors affecting FDI
- ③ decision and the selection of the method of entry into the Egyptian market.

It has been pointed out earlier that there are several reasons which lie behind MNCs investment abroad. Some of these reasons for example, are peculiar to the MNCs specific factors (e.g. technological, financial, personnel capabilities or advantages, etc. which are not shared by the local host countries firms), the desire of MNCs to exploit their competitive advantages to avoid excessive competition in the .

home markets to expand and develop new markets and so forth. Other reasons are associated with the locational factors such as marketing, production inputs (notably labour costs) inducement by the host government, etc.

Not only may the MNCs' overseas investment decision be influenced by the above factors, but also the MNCs selection of the methods of entry into a given foreign market (such as Egypt) is also open to the effect of the same factors in addition to other considerations relating to, for example, FDI policies and practices towards FDI in general.

Thus, the present study aims to examine the salient reasons for FDI and considerations regarding the decision to invest and the selection of the forms of FDI and/or methods of entry into the Egyptian market according to the view of a sample of BMNCs operating in Egypt^(*). More specifically, the study aims to ascertain reasons for FDI, and its determinants, factors affecting the choice of FDI form or entry into the Egyptian market in order to obtain a basis for overall comparison of the relative importance of each of the sets of reasons and factors below[†]:

(*) Information/data concerning the size of the investment profile of the firms surveyed etc. is to be found in Table D-2, Chapter (2) in Section (D).

(+) Detail is to be found in Chapter (1) Section (D).

Reasons for the BMNCs investment in Egypt -

Mostly locational factors such as:

- A. Reasons related to sales and profit potential, e.g. less competition or large market size existing in Egypt, developing new markets and so forth.
- B. Reasons related to cost factors and trade barriers such as overcoming tariff barriers, lower cost conditions (e.g. labour, raw materials, etc.).
- C. Reasons related to the host government pressures e.g. privileges and incentives offered to incoming foreign firms, etc.
- D. Reasons related to risk, e.g. to protect patents, to diversify markets.
- E. Reasons related to home government pressures, such as incentives offered for overseas investment, anti-trust legislation, etc.

Factors and considerations regarding the decisions to invest and the selection of the methods (or forms/paths) of entry into the Egyptian market:-

- (A) Factors peculiar to the BMNCs (BMNCs specific factors) e.g. the size of the company, company's product line, capabilities, etc.
- (B) Factors relatively independent of the BMNCs and their industry, such as the number of foreign markets in which the individual company has

representation, investment requirements, and so forth.

- (C) The advantage of each method of entry. e.g. information, feed-back and control over the operations.

Factors affecting the decision to invest in Egypt-

Egypt specific factors:-

- (A) Economic factors or determinants.
- (B) Political factors or determinants.
- (C) Socio-cultural factors or determinants.

Additionally, the study aims to obtain information and any specific reasons (other than those which have been suggested above) behind the BMNCs adoption of a certain method or form of entry into the Egyptian market.

Exploration of the salient problems facing the Foreign firms' marketing and investment activities and their expansion

Relating to the above objective the current study is interested in exploring the main problems that the BMNCs' implementation of marketing policies in Egypt have encountered, in addition to problems in terms of expanding their investment there. In other words, the study aims to examine how significant does the Egyptian environment serve effectively FDI and foreign firms' activities, and how the BMNCs estimated and weighted the environmental issues with regard to their investment and marketing policies in Egypt.

Examination of the Impact of FDI in Egypt

In this connection, the prime concern of the study is to examine the benefits and costs of FDI in Egypt. More specifically, the study intends to explore and ascertain the relative importance of FDI in Egypt's general progress as follows:

- (a) Analysing the benefits realised and costs of FDI in Egypt.
- (b) Exploring the attitudes towards FDI as perceived by a sample of Egyptian elites and the executive managers of the indigenous companies.
- (c) Outlining the benefits that have been acquired by Egypt as a result of the BMNCs' presence (BMNCs' executive managers point of view).
- (d) Examining the major problems in respect of e.g. production, marketing, personnel, etc. that the state-owned enterprises have encountered as a result of FDI.
- (e) Testing a number of anticipated benefits, undesirable activities, conflict areas and possible problems as introduced by the foreign firms in Egypt.

Generally speaking, the study grapples with and tries to examine the contribution of and the attitudes towards FDI as perceived by the Egyptians and foreign investors as well. This is in addition to how the Egyptian elites and the executive managers of the indigenous firms estimated and weighted the influences of FDI in Egypt. In addition

to these purposes, the study is also concerned with examining the relationships between FDI impact and factors in Egypt's economic, socio-political climate, etc.

Assessment of the FDI's policy (organisation and implementation) in Egypt (*)

It has been argued that the impact of FDI in a given host country's development is partly contingent upon the prevailing FDI's policies, measures and practices in that country. Another part is arguably the economic and political weaknesses in the host country concerned.

Because Egypt (like many developing host countries) is likely to make mistakes in its policies, practices and so forth with regard to FDI, and this in turn may influence the contributions or benefits sought to be realised through FDI, the present study endeavoured to evaluate the prevailing policy stance, practices and measures towards FDI in Egypt since 1974. In more specific terms the current study is interested in examining the following:

- a) The salient characteristics of Egypt's policy towards FDI according to the 1974 policy statement in the light of other developing countries.
- b) The main forms or methods of entry into the Egyptian market which have been adopted by the BMNCs i.e.

(*) It is important to note that the present study is concerned primarily with the inland foreign investment (forms, flows, etc).

how the BMNCs entered into the Egyptian market according to the prevailing methods permitted by the Egyptian investment laws and regulations as demonstrated in figure (A-2).^(*) In this connection it was thought useful to explore the nature of the BMNCs' activities and their methods of entry into the Egyptian market.

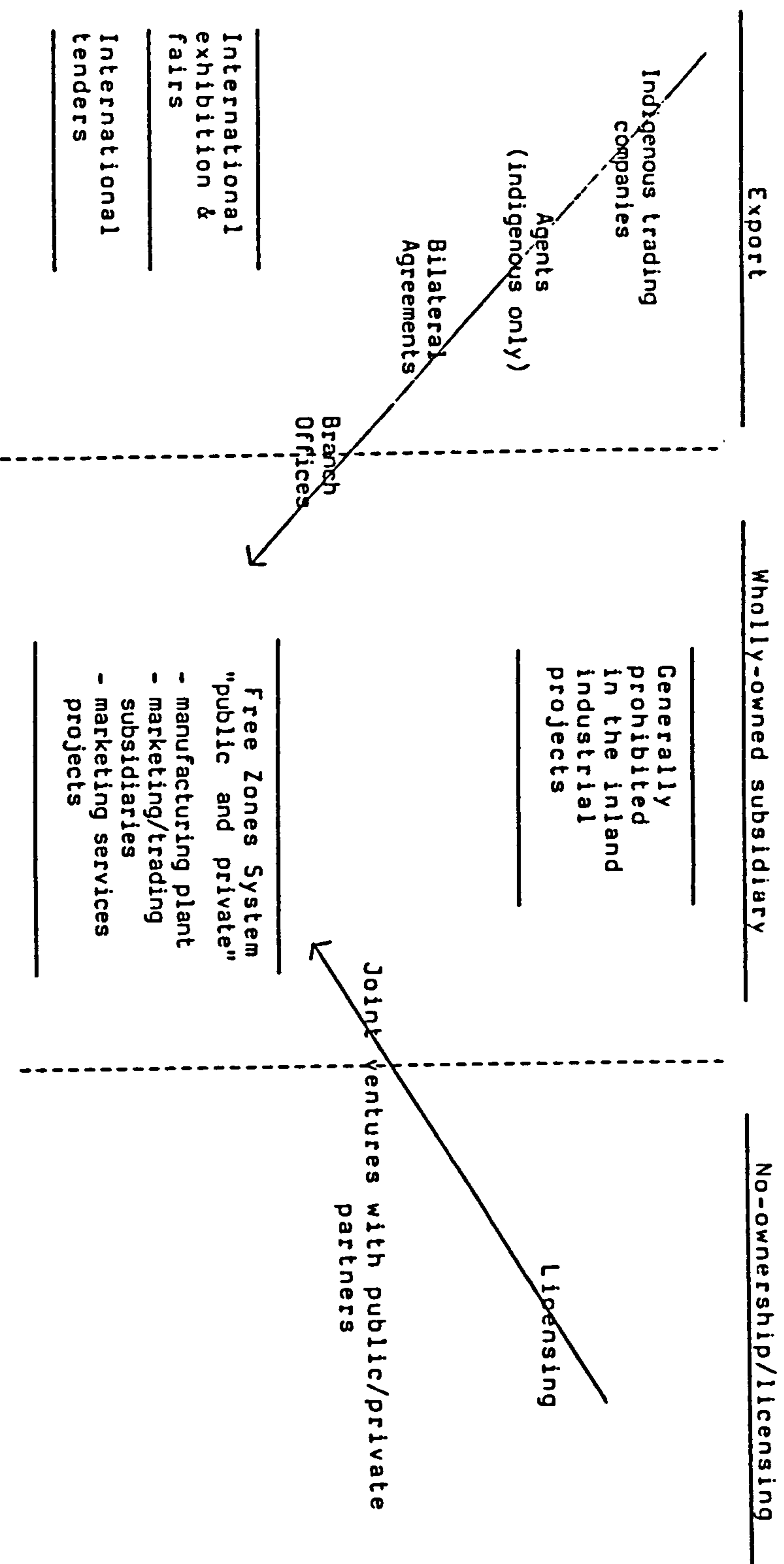
- c) The relationship between the impact of FDI and the policies and practices of the government of Egypt in general.
- d) The attitudes toward the establishment of wholly foreign owned subsidiaries in Egypt.
- e) The relevance of the incentives offered by the government and the facilities needed to encourage the FDI's flows.
- e) The current practices and activities implemented by GAFI and its official representatives abroad, in collaboration with the General Organization for Industrialization (GOFI) in terms of eg. promoting FDI and its achievement in Egypt, the major limitations and obstacles that have been recognised in dealing with foreign investors, etc.

Requirements for policy changes

Based on the previous objectives, the study endeavours to provide some alternative developmental courses of action concerning a rational policy, practices and so forth toward FDI in Egypt. With a view to making policy and implementation changes which will improve FDI's contributions, the

(*) See next page.

Figure (A-2) Forms or Methods of Entry into the Egyptian Market: The Current Situation (*)



(*) More detail is to be found in Chapter (3) in Section (C).

(+) An arrow denotes - theoretically - to progression to next stage if possible. For the foreign firms concerned, it refers to more investment, more control, the operation, etc.

Sources:

- (1) Law no. 43 of 1974 as amended by law no. 32 of 1977 concerning the investment of Arab and foreign funds and the free zones, see appendix (B).
- (2) Law no. 118 of 1975, law no. 14 of 1976, law no. 733 and 947 of 1976, law no. 120 of 1982 concerning export/import and organizing operations of commercial agency and certain mediation activities.
- (3) Companies law no. 159 of 1981.

present study aims to examine a number of proposed actions to be followed by the Egyptian government.

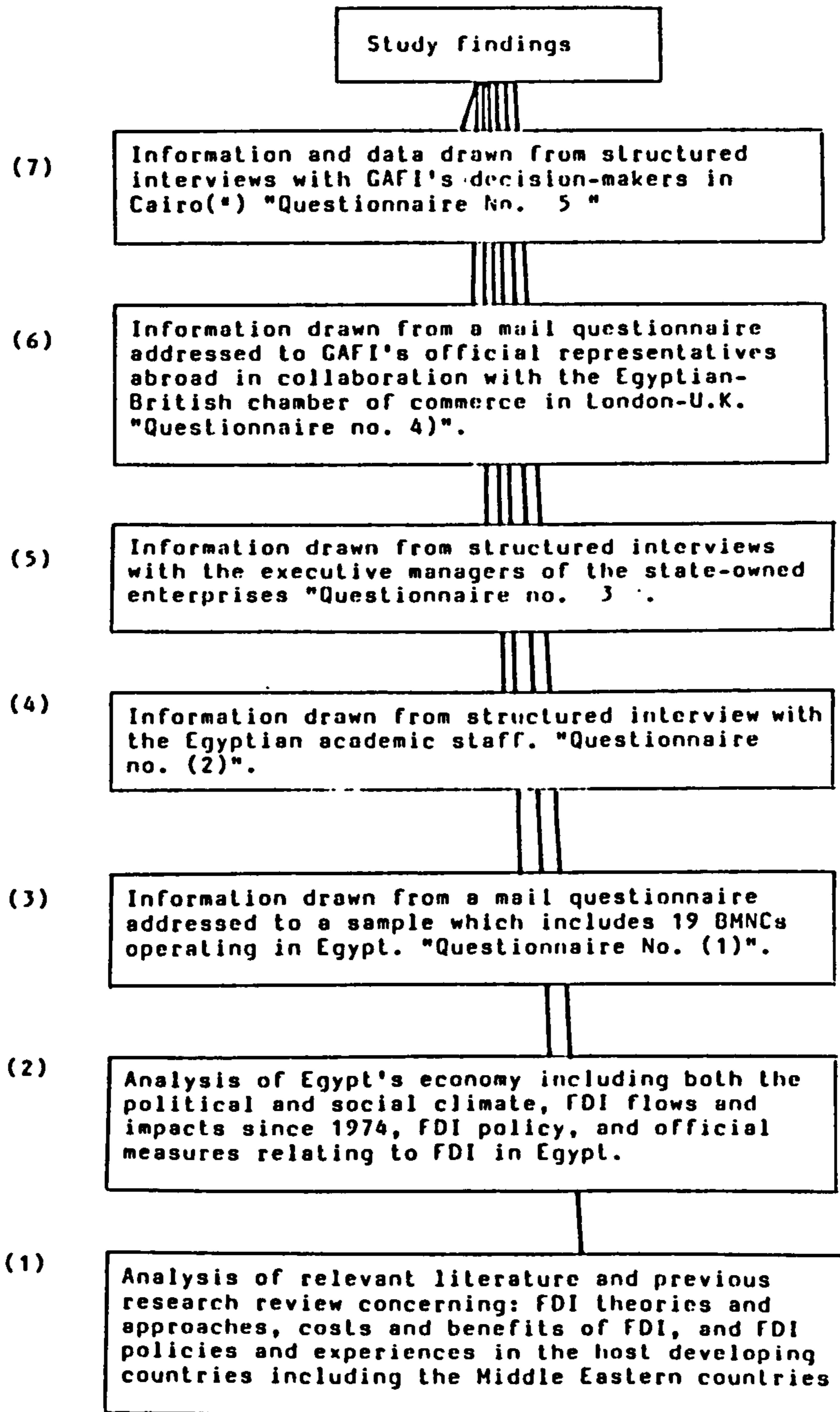
This is in addition to other suggestions which have been derived from or based on the investigation of the current status of FDI's policy, contribution and practices in general in the light of Egypt's economic, social and political environment.

Inputs for the current study on FDI in Egypt

In the light of the preceding purposes it may be useful to outline the major inputs which have been employed to accomplish the study objectives as shown in Figure (A-3)^(*).

(*) See the limitations relating to the study findings in Section (D).

Figure (A-3) Inputs for the current study



* In collaboration with GOFI.

References

1. D. W. Carr, Foreign Investment and Development in Egypt, New York: Praeger Publishers, 1979, p. 113.
2. Ibid, pp. 23-27.

Section B

LITERATURE REVIEW

Highlights for Section B

The Objectives of the present section is to present an overall review of the literature and previous research findings concerning factors affecting FDI, impacts, organisation and the implementation of FDI in developing countries especially in the Middle East.

Thus the current section contains three chapters:

- Chapter 1: Factors influencing FDI in developing countries"with specific reference to the Middle East."
- Chapter 2: The Impact of FDI in developing countries"with specific reference to the Middle East."
- Chapter 3: The organisation and implementation of FDI in developing countries"with specific reference to the Middle East."

FACTORS INFLUENCING FDI IN DEVELOPING COUNTRIES "WITH
SPECIFIC REFERENCE TO THE MIDDLE EAST"

Introduction

In a domestic market place, the degree of success and continuity of a given enterprise are contingent upon some technological, financial, managerial factors, etc. When such enterprise operates or goes overseas, its decision makers will expect to encounter new environment involving several competitive factors and distinctive aspects which may be different from those factors in the local market.

One group of such factors is economic, another group is political and legal, a third group is cultural, while the fourth group is arguably peculiar to the enterprise itself. In other words, the differences between a MNC domestic market and the foreign one in terms of e.g. the level of economic growth, GNP per capita, tastes and habits of the consumer, attitudes and regulations concerning business and FDI in general, etc. may influence the success and the decision of that firm for investment abroad particularly when a MNC moves from a developed market to a developing one.

Beyond the above mentioned variables, the decision of a Mnc for investment in a certain foreign market may equally be determined by a number of other factors associated with the competitive advantages and the objectives of the firm. Thus, a Mnc, competitiveness and its objectives which are to be sought through FDI in a given

host market must be considered and associated with better understanding of the major features and competitive factors of the foreign market concerned.

As far as the present chapter is concerned, it may be useful to highlight firstly why do MNCs establish FDI, and secondly the major factors in marketing, economic political and cultural factors influencing FDI in the developing countries particularly in the Middle East. The factors determining and influencing FDI decisions will be considered under three major headings:

- 1.1 The Reasons for FDI: MNCs perspective .
- 1.2 Empirical evidence on the determinants of FDI.
- 1.3 The role of "factors" in Marketing and Investment climate in FDI decision-making in the Middle East perspective.

1.1 The Reasons for FDI: Mncs. Perspective

Initially, within trade theory the foundation stone for explaining patterns and gains from trade is the doctrine of comparative advantage. The proposition upon which this doctrine was based is that "if a country specializes in the products in which it has the greatest comparative advantage relative to other nations, and trades those products for goods in which it has the greatest comparative disadvantage, the country's total availability of goods, secured from a given amount of resources will be enlarged"⁽¹⁾. ie. the basis for trade accordingly is

the comparative advantages rather than absolute advantages.

But the assumption upon which the above theory was based has come under increasing criticism because the theory failed to explain why comparative cost advantages differ between nations. This question is answered by the Heckscher-Ohlin theorem which attributes differences in comparative costs to differences among countries in factor endowment⁽²⁾. ie. the country will export goods in which its most abundant production factor is used relatively intensively and import the commodity which incorporates the factors with which it is least endowed. The theory developed by Stolper-Samuelson which describes the effect of protection on relatively scarce factors is also closely associated with the Heckscher-Ohlin model.⁽³⁾

Despite the Heckscher-Ohlin-Samuelson theorem providing a tool for explaining the causes of differences in comparative costs, empirical tests have failed to support the theory. Leontief⁽⁴⁾, for example, found that the US exported goods that contained relatively more labour than capital, as compared with goods it imported in spite of the fact that the U.S. were thought to be the most capital-abundant and the most labour-scarce economy.

Furthermore, gaps in income per capita between developed and developing countries have been rapidly widened, and since the second world war international trade has been liberalised⁽⁵⁾. Eventually, Robock and Simmonds, have adduced the following limitations of trade theory⁽⁶⁾:

1. The simplifying assumptions of the theory e.g. that the factors of production (land, labour and capital) are immobile between countries, perfect information exists as to international trade opportunities, trading firms in different countries are independent entities. Also the theory assumes perfect competition and does not allow for monopoly or oligopoly.

2. Trade theory did not recognise explicitly technology, know-how, or management and marketing skills as significant factors of production which can be the basis for comparative advantage⁽⁷⁾.

3. The theory did not anticipate nor does it attempt to explain international business activities in forms other than the movement of goods the business firm, for example, can supply foreign demand through licensing a foreign production and it can secure foreign goods through direct investment projects.

In other words, the firm can supply foreign markets and secure foreign goods by numerous ways other than traditional importing and exporting.

It should also be noted that the current establishment of trade groupings such as GATT, EEC, etc. which aim at removing the obstacles of trade may influence trading practices worldwide.

In seeking an answer to why do Mncs invest abroad, a series of new approaches have been developed. According to Hood and Young⁽⁸⁾, Brooke and Remmers⁽⁹⁾,

for example there is the economic approach which includes many areas of analysis such as the theory of the firm, the product cycle, capital theory etc. In addition to this, there is the socio-psychological approach which sees the incentives, aspirations, constraints and so forth within the firm providing the motive for FDI. FDI might also be viewed as a historical process allied to the developments in transport and communication etc. as well as imperial and defensive considerations. In this respect, it should be mentioned that while Hood and Young have analysed FDI's theory from an economic perspective, they also referred to the importance of developing other approaches as well. Political considerations for example have been viewed as inevitably of some importance in the process of MNC's development overseas, and could be incorporated into the theory as in the neo-imperialist explanation for the growth of the international firms⁽¹⁰⁾.

As might be expected, however, the various professional fields of specialisation have been given special emphasis by theorists and contributors with regard to the theory of FDI. For example, specialists in industrial organisation have explained FDI in terms of product differentiation, Oligopoly product and factor markets. In the field of international finance, specialists have concentrated on capital market imperfections. Alternatively management and decision theory experts have focused on the internal decision-making process of the firm⁽¹¹⁾. Also,

according to the business administration experts the activities of FDI have been considered as a natural consequence of the growth of a firm. This business administration approach seeks to provide guidelines to the firm concerning the type of management which would best confront several problems such as dealing with foreign government, arbitrations of international conflicts etc⁽¹²⁾.

In this connection, the current section presents a summary of some approaches on FDI, followed by examples, of empirical evidence on the determinants of FDI.

✓ The Market Imperfections Approach:

This approach is based on an assumption that the enterprise has a global horizon; the decision of the firm to invest is explained as a move to take advantage of certain capabilities not shared by local competitors⁽¹³⁾. This means that the firm must have certain competitive advantages in some areas which a local firm does not possess. Or as Hood and Young⁽¹⁴⁾ have stated: "with perfect competition, firms do not possess market power; they produce homogeneous products and have equal access to all productive factors. In such a world there would be no such thing as direct foreign investment since no advantage could accrue to the prospective multinational firm".

Parry⁽¹⁵⁾, has argued that direct investment is associated with the Possession of a unique asset by

a firm which conveys a monopolistic advantage exploitable via direct involvement in foreign market. According to Caves⁽¹⁶⁾, FDI Occurs mainly in industries characterised by certain market structures in both the host and home countries (most importantly, oligopoly characterizes FDI in general, whereas oligopoly with product differentiation underlines horizontal FDI in particular).

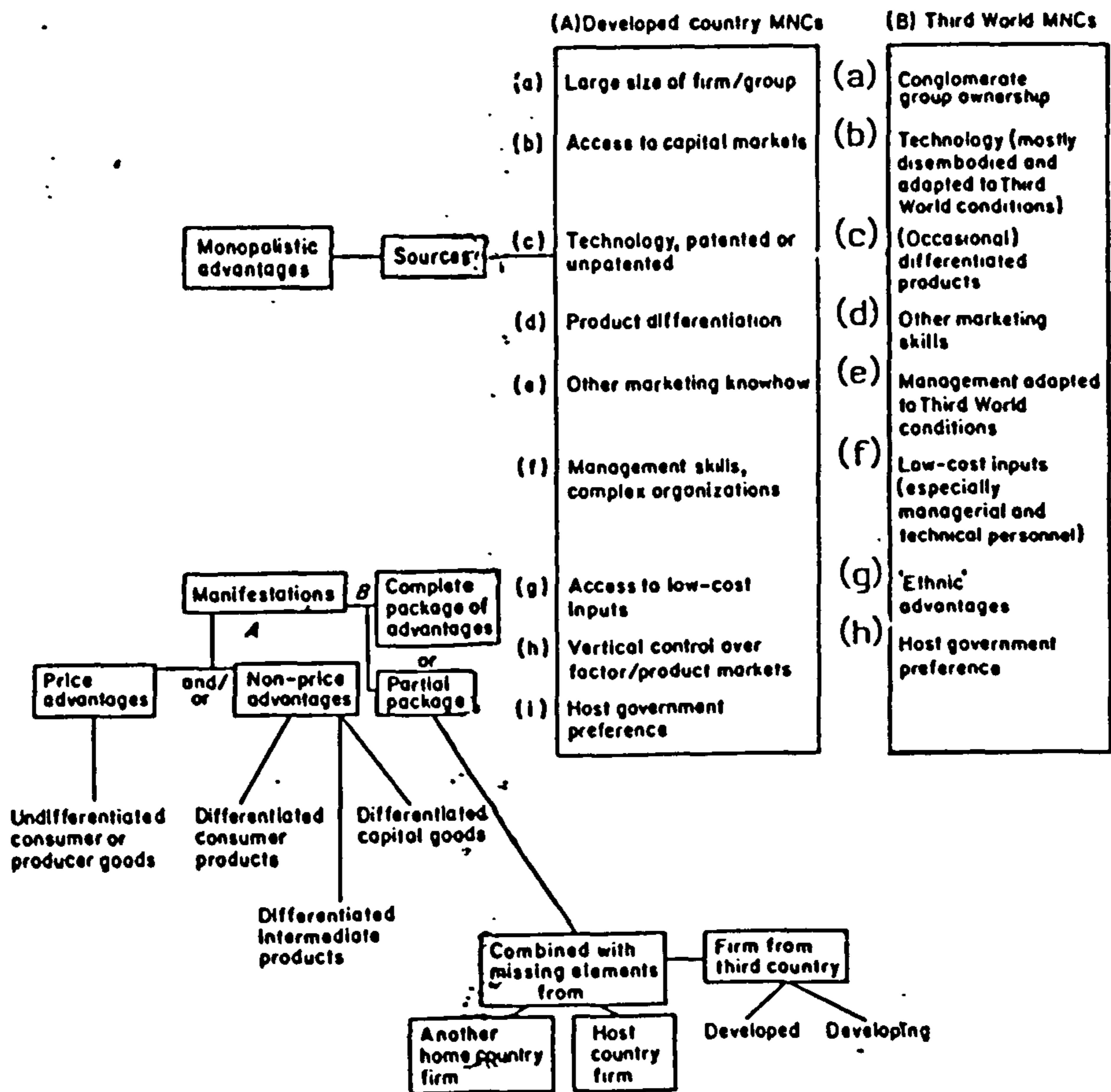
Broadly speaking, departures from conditions of perfect competition within national markets may occur in situations such as:

- A. goods markets including product differentiation brand names, special marketing skills or collusion in pricing⁽¹⁷⁾.
- B. Factor markets (e.g. special managerial skills, differences in access to capital markets)⁽¹⁸⁾
- C. The role of scale economies in both the plant and the firm. The existence of economies of scale also tends to favour production within a central production unit with foreign market serviced via exports. Also where trade barriers exist (therefore foreign markets may have to be serviced via direct investment and licensing or not serviced at all).⁽¹⁹⁾ Additionally, the size of the host market and the stage of development of the market both of which reflect the potential for exploiting technical economies of scale⁽²⁰⁾.

D. Government policies in respect of taxes, tariffs, interest rates, etc. May also create imperfect markets⁽²¹⁾.

There are several sources of MNCs monopolistic advantage firm-specific which associate with the preceding aspects of market imperfections. Figure (B-1) provides a summary of MNCs manifestations/sources of monopolistic advantage for MNCs.

Figure (B-1) Manifestations/sources of monopolistic advantage for MNCs. (+)



+ The present study is only concerned with the developed country MNCs.

Source: S. Lall, et al. The new multinationals: the spread of Third World enterprises. (New York: John Wiley & Sons, 1983) p.7.

Generally speaking, MNCs monopolistic advantage can be classified into four major groups as follows:

1. Technological advantages: eg. ability to differentiate products (in e.g. packaging, colouring, etc.), ability to create new products and new products processes, intensity of R & D funds and skills, organisational skills and management techniques compared with local firms, marketing skills (marketing) research, selling, advertising, etc). and so forth⁽²²⁾.
2. Capital intensity: large MNCs can raise the sums needed to establish efficient facilities produce and promote capital-intensive products abroad⁽²³⁾. Additionally, as risk is particularly related to international capital flows most of Mncs are capable of making an optimal portfolio selection and inconsequence can reduce the risk.
3. Entrepreneurial and managerial skills are apparent to be one of the very strength and vitality characteristics of Mncs. Fully transferable skills in every field can easily be deployed by Mncs abroad through shifting high-level manpower or by setting up training programmes, for example⁽²⁴⁾.
4. Access to raw material: the existence of particular raw material may be a country-specific factor influencing the location of FDI particularly in terms of extractive industries. A Mnc having been granted access to raw material it becomes a firm

specific advantage either in a form of controlling production, processing or marketing the final product. Taking into account the technological and financial capability of a Mncs etc. Compared with the local firm the former can earn either more raw material or profits through exploiting the oligopolistic position in the domestic or foreign markets⁽²⁵⁾.

It could be established however, that the market imperfections approach concentrates on the firm-specific advantages and it provides help to identify the areas of investment in which a Mnc can exploit its capabilities either domestically or internationally. In the meantime, the approach ignores some aspects of country-specific which may plague the implementation of the firms, activities or entry into the market particularly those related to the cultural and political factors. In the long run, it is also possible that some of Mncs - specific advantages may be influenced either in marketing or in managerial terms, for example. This is because local firms may imitate the techniques used by the Mncs helped by the host government's subsidy and incentives granted to the indigenous firms.

Robock and Simmonds⁽²⁶⁾, have also argued that the market imperfections model needs to be supplemented by the global horizon contributions because it assumes that the firm is constantly aware of foreign opportunities. The

model also provides no answer why foreign production is the preferred mean of exploiting the advantages where the firm's advantages can also be exploited through exporting or licensing.

Internalisation Approach

In this respect, Rugman⁽²⁷⁾ has suggested that the essence of this approach is the recognition of market imperfections which prevent the efficient operation of international trade and investment. It shows that Mnc developed in response to exogenous government-induced regulations and control which have destroyed the reasons for free trade and private foreign investment. The internalisation process, therefore, permits the Mnc to overcome the externalities resulting from such regulations. In addition, the Mnc has been an efficient response to non government market failure in areas such as information and knowledge.

On the basis of Buckley and Casson's argument, Parry⁽²⁸⁾, has suggested that FDI according to this approach is concerned with the internalisation of various functions which are normally carried out via the market, within the subsidiary parts of Mnc. These internalised functions include e.g. movement of raw material, the use of management skills, R & D etc. all of which can be procured in the market place but which, according to the theory, are better managed via intra-firm rather than market transactions.

In other words, a Mnc can maximise its return by carrying out various functions (factor markets, know-how markets, R&D etc.) internally instead of doing them in the market place. Or according to Magee's viewpoint the Mnc aims to protect its investment in creating knowledge and information via internalising proprietary knowledge within the firm rather than via the market. The Mnc will seek to protect its rights connected with the developed skills, Knowledge etc. in order to earn an economic return on the investment involved⁽²⁹⁾.

In this regard, Hood and Young⁽³⁰⁾, have argued that the difference between the internalisation approach and the theories of technological advantage, industrial organisation, etc. is not in terms of the possession of a unique asset perse which gives a firm its advantage. It is rather the process of internalising that asset as opposed to selling it to a foreign producer which gives the Mnc its unique advantage.

Under this model, according to Hood and Young's argument - internalisation would be as much a characteristic of a multi-plant uninationaional firm as of a multinational firm. Moreover, the major difficulty comes in trying to validate the internalisation hypothesis empirically, and to demonstrate whether or not the theory can be extended to the long run even on present knowledge of the Mnc expansion process: eg. whether the political or other costs of internalisation will ultimately become prohibitive

if nations adopt discriminatory policies towards Mnc, as in the area of transfer pricing⁽³¹⁾.

Eventually, with regard to the idea developed by Magee concerning the appropriability model, Hood and Young have argued that "the appropriability theory again draws upon the internalisation concept, since it is the MNE's ability to internalise technology which is one of the factors facilitating appropriability". Also "the international patent system will provide protection for certain types of technology"⁽³²⁾. Furthermore, the internalisation theory in general focuses on the motives and decision process within the firm and gives only limited attention to the potential of national control policies as well as other external factors which may influence the costs and benefits of internalisation.⁽³³⁾

The Product Cycle Approach

International product life cycle (IPLC)-as a theory - has been developed and verified by the economists to explain international trade in the context of comparative advantage. IPLC is mainly concerned with the diffusion process of an innovation across national boundaries⁽³⁴⁾.

IPLC in essence, includes four phases in production and trade cycle, which is outlined below with the U.S. as an example:⁽³⁵⁾

Phase 1 U.S. export strength.

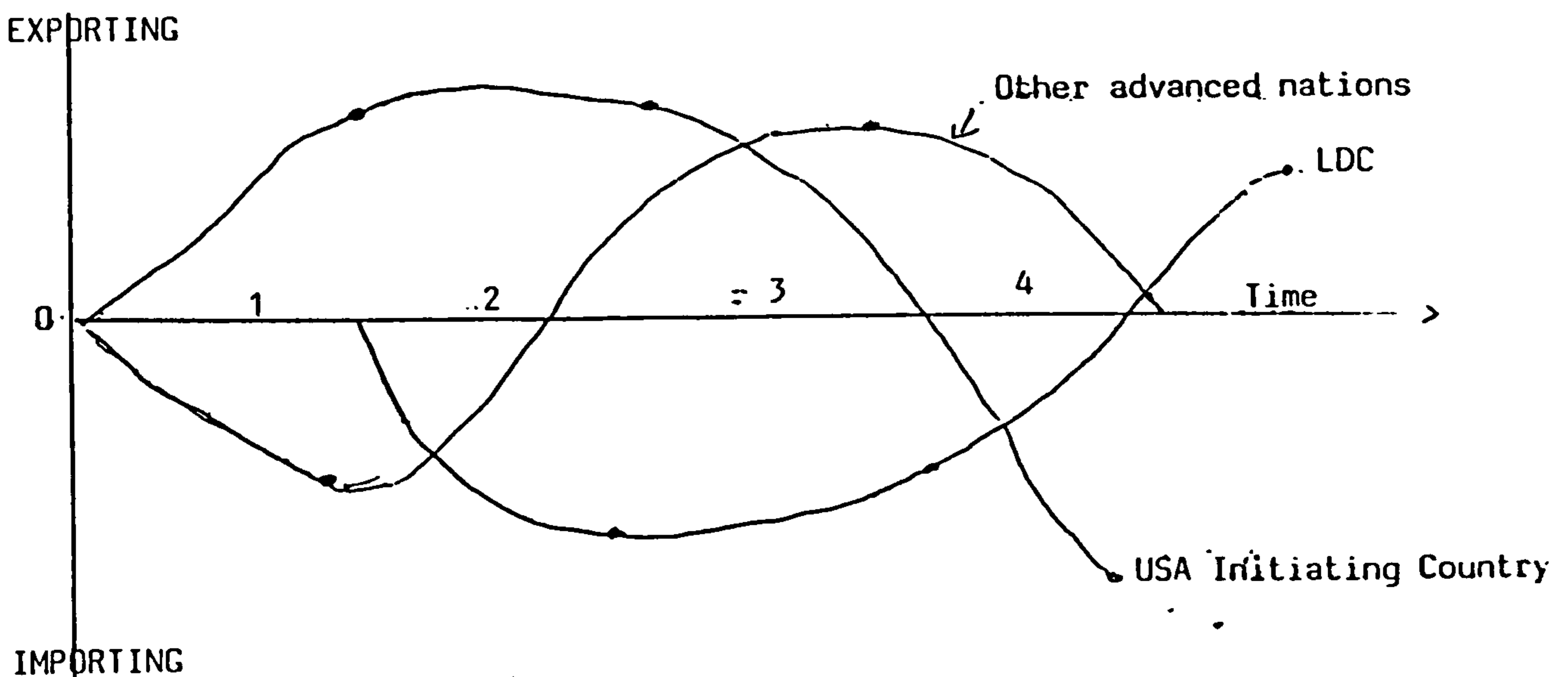
Phase 2 Foreign production starts.

Phase 3 Foreign production becomes competitive in export markets .

Phase 4 Import competition begins.

The model according to the above-mentioned stages or phases as also described in Chart (B-1) suggests that a developed country such as the U.S. having a new product to satisfy consumers needs, attempts to exploit its technological breakthrough by selling abroad. Other advanced nations soon start up their own production facilities and before long, Less Developed Countries (LDCs) do the same. Finally, advanced nations (e.g. U.S.) having lost their comparative advantage, begin to import products from their former customers⁽³⁶⁾.

Chart (B-1) IPLC Curves (*)



(*) The chart shows three life cycle curves for the same innovation/product.

Source: S. Onkvisit and J. Shaw. An examination of the international product life cycle and its applications within marketing. op. cit., p.74.

Probably the most important point relevant to the present theme is the reason behind the shift of production abroad. In this respect, it could be argued that most firms tend to operate/produce and sell their product locally as long as they earn an adequate profit. When competition (in price, production factors) becomes more intensive, production may shift abroad to less intensive and competitive markets (ie. low-production cost markets or low-price competitiveness), where the firm concerned will enjoy a monopolistic position (in several production, marketing, technological areas, etc.).

The IPLC theory, in general, has some applicability for firms which are expanding abroad for the first time and for Mnc activity associated with final product type⁽³⁷⁾. There are also several examples of products which conform to the characteristics described by IPLC. The production of semiconductors started in the USA before diffusing to the U.K., France, Germany and Japan, and now these are production facilities in Hong Kong, Taiwan and other Asian countries. Also, prestigious goods, eg. Rolls Royce incorporate features which cannot easily be duplicated by imitators⁽³⁸⁾. Meanwhile, Onkvisit and Shaw⁽³⁹⁾, Giddy⁽⁴⁰⁾, ~~x~~ among others have argued that the IPLC is not suitable for all types of products particularly those products, which are essentially homogeneous in other parts of the world. Manufactured products rather than agricultural and natural resources products are more likely to conform to the

described trade cycle. Furthermore, the IPLC model does not address the strategy issue of why Mnc undertake investment abroad instead of e.g. licensing.

Finally, Kojima⁽⁴¹⁾, has also argued that the product cycle is a theory of the location of production of one commodity by a firm growing through monopolistic or oligopolistic behaviour. Moreover, he considered FDI as a monopolistic defence of the market which could be made before the mature stage of the product cycle because the threats (e.g. tariffs in importing countries, import quotas, etc.) to export arise and in consequence exports will decrease. In other words, a Mnc may prefer to invest/expand abroad for cost factor reasons or other locational factors before the mature stage of the product cycle.

The Locational Approach

For most firms, FDI decision involve many considerations of an international and domestic dimension. In this connection, the present approach is primarily concerned with the question of where firms locate their foreign operations/affiliates. ie. The locational approach concentrates on examining and highlighting the determinants of decisions regarding the location of FDI in a given host country.

In sum, examination of literature demonstrates that "the theory of location is concerned with supply and demand variables which influence the spatial distribution of

production processes, R & D activities and the various administrative functions of the firm⁽⁴²⁾". Dunning⁽⁴³⁾, has also argued that a general theory of location encompasses both cost and market sectors.

It is possible, however, that factors such as the prospects of market (size, growth, degree of competition, etc), production cost factors (labour, raw material, intermediate facilities, etc), measures and restrictions imposed on trade (tariff and non-tariff) and so forth are among those factors which may affect a Mnc's decision to invest in a certain host economy or the choice between for instance FDI and exporting. An added illustration, the OECD pointed out that several locational factors might determine the decision on FDI. Among these factors including cost factors - are seen to be the following⁽⁴⁴⁾:-

- (a) Inducements by governments and other incentive offered.
- (b) Investment climate factors such as general attitude to foreign investment, political stability as well as the regulations limiting ownership or transfer of profits.
- (c) Market attraction has been considered as the most popular explanation of a country's propensity to attract FDI.

According to the present approach, it could be argued that marketing factors such as the size of market and its growth etc., and cost factors including labour costs and raw material and so forth in addition to government policies concerning trade and investment including of course other

cultural and political issues etc. are among the most important determinants of the decision on FDI.

The Geobusiness Approach:

Under the label "Geobusiness model" Robock and Simmonds⁽⁴⁵⁾, have suggested that three major groups of variables may affect international business patterns and activities. Exhibit (B-1) illustrates these variables.

Exhibit B-1 Basic Variables of a geobusiness model

Conditioning variables:

Product-specific	Product and factor requirements, technology and production characteristics.
Country-specific	(a) National market demand, (b) Disparities in natural and human resource endowments, (c) Disparities in technological cultural, institutional, economic and political environments.
Inter-nation	International financial trade, transportation and communication systems and agreements that affect the spatial movement of information, money, goods, people, etc.

Motivation Variables:

Firm-specific	Geographical perception and resource availability
Competitive	The relative competitive position of individual enterprises and competitor moves and threats.

Exhibit (B-1) Cont'd
Control-variables:

Country-specific	Administrative actions, laws, and policies of home and host country government that directly or indirectly influence international business through positive incentives and/or negative control.
Inter-nation	International agreement, treaties, and codes of conduct directly affecting the pattern of international business.

Source: S.H. Robock and K. Simmonds. International business and multinational enterprise. op.cit., p.51.

The geobusiness approach (as displayed in exhibit B-1) is really composed of many factors which have been attributed to the approaches examined earlier. It provides/incorporates several key interacting and inter-related variables which can act as incentives or constraints regarding the decision on FDI. Most interestingly, the geobusiness approach concentrates upon the possible influences of both the home country's environment and the host countries investment climate.

It is possible for example to argue that factors such as the home government's guarantee scheme for overseas investment, anti-trust legislation making expansion difficult at home, trade union pressure, severe competition and

so forth may encourage a Mnc to invest abroad. Meanwhile, on the side of the host government, it is also possible that the temptation of incentives offered, the prospects of markets, the existence of little or no competition etc. may be among the reasons for overseas investment.

Eventually in another piece of work Rugman⁽⁴⁶⁾ has summarised - on the basis of reviewing some literature - the possible determinant of foreign investment as a combination of market imperfections factors, locational factors and other motivation variables, e.g.:-

1. The desire to overcome tariffs and other barriers to trade.
2. Exploitation of monopolistic advantages such as in the areas of technology, management, or research.
3. Large market size in the host country.
4. Lower costs of production abroad (labour, borrowing cost, etc).
5. Possible tax avoidance by e.g. transfer pricing.

Based on the preceding review, it could be argued that despite the limitations of FDI theories, they throw light upon the major determinants and motivations which might influence the decision relating to overseas investment. They may help to explain the reasons underlying the pre-conditions of FDI decision for both parties to investment ventures (i.e host country and Mnc particularly). It may generally be argued also that host-country specific factors

e.g. Locational factors on the one hand and Mnc-specific factors on the other hand are among the most important determinants with regard to the decision of FDI.

1.2 Empirical Evidence on the Determinants of FDI:-

As relevant to the present study, more attention will be paid to the evidence relating to the locational factors affecting FDI decision. Taking into account the data limitations in terms of the empirical studies on FDI, the following are examples illustrating the weight given to the determinants of FDI.

Mncs' source of advantages: As demonstrated earlier the advantages that a Mnc possessed are numerous. Financial, technological and personnel capabilities are among the most obvious advantages of a Mnc. As table (B-1)* shows data concerning the Bmncs operating in Egypt, one can identify the special characteristics of these firms in the light of the controllable factors below:-

(a) The total investment budget of Egypt accounts £E 6325 m in 1983/84 VS. £ E 5860 m in 1982/83⁽⁴⁷⁾.

(b) GNP in some Arabic countries (values in \$ bn)⁽⁺⁾⁽⁴⁸⁾:

Egypt	32.9	_____	1982/83
Iraq	30.4	_____	1979
Jordan	5.092	_____	1983
Sudan	9.5	_____	1981/82
Syria	18.467	_____	1982
Tunisia	7.8	_____	1983

(*) See next page

(+) £ = \$1.411 on the 23rd of July 1985.

Table (B-1) Characteristics of Ten BMNCs 1981-82.

(Value in £M)

Company Profile	The General Electric Co. PLC		The British Petroleum Co. PLC		Imperial Chemical Ind. PLC		British Aerospace PLC		John Brown & Co. Ltd		Hawker Siddeley Group PLC		Ultramar PLC		Royal Dutch/Shell Group		Rothman International Ltd		The Wellcome Foundation Ltd ↔	
	1982	%	1981	%	1981	%	1981	%	1981	%	1981	%	1981	%	1981	%	1981	%	1981	%
(1) Total net sales	4949		25755		6581		1662		582		1395		1393		40602		2385		5300	-
By foreign subsidiaries *		33			44				28				42						90	
Rest of Europe		4			-				4										46	
The Americans		16			-				18										26	
Australia		4			-				2										-	
Asia		3			-				1										-	
Africa		0			-				3										4	
Assoc. Companies		7			-				-										-	
(2) Exports		22		11		22		62		19			23		-				9	
(3) Net profit foreign	358		1018				47		24		79		93						20	
(4) Total Assets	4048		28860		5211 ⁺		788		588 ⁺				932 ⁺					1047		
(5) Net assets	2140		17754 ^(**)										501 ⁺		13184					
(6) Capital expenditure abroad	173		4301		411				25				149		3904				54	
(7) R & D Expenditure abroad	-	-	105	-	229	-	-	-	-	-	-	-			260					
(8) Total employees	18900		153300		132400		79200		11700		52700		4500		166000		8100		6688	
Domestic		77		27		58		96		-		68	6						33	
Abroad		23		73		44		4		-		32	94						67	
(9) Foreign exchange Gains(Loss)	60.5		672		92				0.6				84.3		(1084)					
(10) Profitability				15.7		9.4													14.2	

(*) Excl. foreign exports (***) Net assets foreign

(+) Total assets, foreign.

(++) Source: Key British 83 enterprises-Britain's top 20,000 companies., London, Dun & Bradstreet Ltd., 1983.

Source: J.M. Stopford The World Directory of Multinational enterprises, London, The MacMillan Ltd., 1982/83, pp. 197, 199, 455, 528, 582, 616, 961, 966, 1175.

- (c) Average number of employees in all Egyptian national textile and garments manufacturing firms is about 8,000 in 1984 (+).

Based on the data concerning Bmncs (in table B-1), it could be established that: (a) the size of Egypt's investment budget in 1983/84 is a very small proportion (not exceeding 1% in some cases) of the total net sales/assets of any given Bmnc, (b) The total net sales or the total assets of some Bmncs investigated (e.g. British Petroleum, Imperial Chemical, Royal/Dutch) exceed the total GNP of some Arabic countries - such as Sudan, Jordan, Tunisia etc. (c) the number of employees (either abroad or domestically employed) by most of the Bmncs is higher than the average number of all the Egyptian national textile firms (the biggest in Egypt includes 22000 workers, while the smallest includes only two thousand).

According to the above comparison it could be argued that the major advantage of the Bmncs under considerations lie in their greater capital capabilities and workforce and also R & D expenditure abroad which account in the case of Imperial Chemical Company, for example for about 55% of its total capital expenditure abroad.

Furthermore, the use of e.g. total assets possessed by the Bmnce and the size of R & D expenditure abroad might provide a genuine indicator in terms of the technological advantages of these firms. This is in addition to the fact

(+) Study survey.

that most of the Bmncs investigated in table (B-1) produce more than one product⁽⁴⁹⁾.

One of the most important indicators demonstrating the Mncs technological advantage is that the fees paid by developing countries to these firms for technical, consulting know-how and patent services, etc. Table (B-2), therefore shows total professional engineering fees and other technical services etc, received by the U.S., U.K., and other European firms from developing and Mid-East countries where the total engineering fees paid in 1980 for example accounts for about 50% of Jordan's GNP in 1983.

Table B-2 Engineering, Construction, Contracting and other technical services fees received by U.S., U.K., and other European firms

	(Value in US \$ bn)	
	1979	1980
(A) Total professional engineering services fees	2.1	2.6
of which: U.S. Firms	38%	34%
U.K. Firms	15%	16%
French Firms	9%	10%
(B) Exports of construction & contracting services - Germany: Construction services, assembly and repairs	1.395	1.892
U.S. Contract operations of U.S. construction, engineering & technical service firms: net receipts	0.752	1.189

(*) Exports to developing countries including OPEC.

Source: G. Vickery. "Some Aggregate Measures of new forms of investment", in C. Oman. New forms of international investment in developing countries. OECD, Paris, 1984, Quoted from Table (1) & (2), pp. 130-131.

Based on table (B-1) it seems possible also that the percentage of the Bmncs exports, the size of Bmncs as measured by their total assets for example, as well as the percentage of sales by foreign subsidiaries reflect the significance of the Bmnc's degree of commitment in foreign markets and their great export propensity also. The figures may arguably indicate the Bmncs' capabilities either in terms of technology transfer or the product differential advantages they have possessed.

Additionally, the following table (B-3) provides data and ratios calculated on the basis of a review of 430 major European, American and Japanese Mncs' profiles during 1974 and 1978^(*). Interestingly, the trends show almost in all cases a continuous growth in sales worldwide, a degree of internationalisation, foreign content etc. of the firms investigated. This in turn probably indicates or reflects several types of advantages which the Mncs have possessed as referred to in earlier occasions. Interestingly too, a comparison between the figures displayed in table (B-2) and those related to the GNP of some Arabic countries as reported earlier may presumably illustrate the enormous financial advantages of Mncs. Also, it is clear that the degree of internationalisation increased when direct export from the home country increased and the growth of foreign content is contingent upon the growth in both the total sales worldwide and the sales of affiliates.

(*) Profiles and ratios were prepared/calculated by Stopford et al.

in the previously-mentioned World Directory prepared in 1980.

Table (B-3) Size of firm and overseas activity⁽¹⁾, 1978 and 1974.

Firm Size by Sales (1978)	Over \$5b.		\$3b.-\$5b.		\$2b.-\$3b.		\$1b.-\$2b.		Under \$1b.		TOTAL	
	1978	1974	1978	1974	1978	1974	1978	1974	1978	1974	1978	1974
[A] Total Sales Worldwide \$m.	1,126,739	711,012	291,153	192,500	214,982	138,108	137,266	88,895	115,933	76,633	1,886,070	1,205,985
[B] Sales of Overseas Subsidiaries \$m.	429,312	275,025	80,372	50,312	59,881	37,275	32,753	19,900	31,444	19,383	633,760	401,895
[C] Direct Exports from Home Country \$m.	111,367	61,982	35,907	23,922	21,325	13,239	16,601	10,012	13,947	8,704	199,147	117,859
[D] Foreign Content i.e. (B)+(C)	540,679	337,007	116,279	74,234	81,206	50,514	49,354	29,912	45,391	28,087	832,907	519,754
[E] Degree of Internationalization i.e. (D)+(A) %	48.0	47.4	39.9	38.6	37.8	36.6	36.0	33.6	39.2	36.7	44.2	43.1
[F] Sales of Overseas Subsidiaries as a percentage of Total Worldwide Sales i.e. (B)+(A)	38.1	38.7	27.6	26.1	27.9	27.0	23.9	22.4	27.1	25.3	33.6	33.3
[G] Direct Exports of Parent as a percentage of Sales of Overseas Subsidiaries i.e. (C)+(B)	25.9	22.5	44.7	47.5	35.6	35.5	50.7	50.3	44.4	44.9	31.4	29.3

1. Includes all Directory Firms except De Beers Consolidated Mines for which there are no sales figures.

2. Average.

Source: J. Stopford, et. al., The World Directory of Multinational Enterprises, London: The MacMillan Ltd., 1980, part 2., p. xxix.

In fact, the relationship between the above variables is still one of the most debatable topics. In this connection, a study by Lall (on monopolistic advantages and foreign involvement by U.S. manufacturing industry) leads him to argue that: (a) capital intensity does not show any significant influence on either form of foreign involvement, (b) The product differentiation advantage appears to be highly transferable and to promote foreign production instead of exports, (c) The possession of large numbers of salaried personnel serves to promote foreign production rather than exports. And the combination of technological and product differentiation factors exercise the largest effect on foreign involvement in all its terms, and (d) The presence of firms producing internationally, means that the possession of advantages which are easily transferred from Mncs home country promotes direct investment, but the possession of advantages which are temporarily or permanently tied to the country promotes exports.

Meanwhile, Hood and Young⁽⁵¹⁾, have argued that:

(a) there need not necessarily be any relationship between expenditure on R & D (or advertising) and the resulting output, and the new or differentiated products derived from these expenditures could be marketed in the domestic economy.

(b) In terms of the size variable, it may be postulated that large firm size stimulates diversification and multinationality but it could be argued that size may be

the by-product of expansion rather than the stimulus.

(c) Increased foreign investment could encourage increased R&D ie. the firm's engagement in overseas markets is not necessarily related to the greater expenditure on R&D.

In general therefore, it seems clear that most of Mncs (including Bmncs) have greater financial, technological capabilities, etc. but it may be hard to argue that there is an obvious and strong relationship between, say, the size of a Mncs or R & D expenditure and so forth, and the degree of foreign involvement of such a firm for example. In other words, it could be argued that a combination of e.g. technological, personnel, product-differentiation, capital intensity factors, etc., may exercise the effects on e.g FDI decision or forms adopted by a certain Mnc. It is also possible that factors other than those related to the Mncs characteristics perse could influence the decision concerning FDI. The spread of protectionism and regional grouping for example may act either as an incentive or constraints on the Mncs investment decision. Also location-specific costs may relatively effect the transferability of Mncs monopolistic advantages abroad and the decision on FDI.

As risk is specifically regarded as one of the determinants of international capital flow, it has been argued that portfolio diversification or an optimal portfolio selection will reduce risk. One element of risk is foreign exchange rate risk. In this respect, Aliber⁽⁵²⁾,

has argued that it is possible for a Mnc to manipulate its overall portfolio in order to reduce expected changes in foreign exchange rates associated with each currency.

Aliber's first study⁽⁵³⁾ implied that there was less risk associated with the US. \$ which gives an advantage to the subsidiaries of U.S. Mncs compared with a local firm in the host country. In the second contribution, Aliber has suggested that other advantages enjoyed by subsidiaries such as their ability to borrow cheaper capital and achieve a better capitalisation rate on their shares. Direct investment according to Aliber's model is significantly affected by foreign exchange rate risk. A nation with a strong currency for example will endow its entrepreneurs with a distinctive advantage over foreign local firms when the foreign country has a weak currency⁽⁵⁴⁾.

Taking into consideration the time horizon; Caves and Reuber⁽⁵⁵⁾, and Porter⁽⁵⁶⁾ have argued that short-term portfolio capital flows are particularly responsive to interest rate differentials, but there is also some sensitivity of long-term portfolio capital and direct investment.

Finally, one of the econometric tests of FDI was reported by Scaperlanda⁽⁵⁷⁾ using a neoclassical stock adjustment model. He suggests that one of the major determinant of foreign investment is the changes and fluctuations in the host economy's foreign exchange rate. In the meantime, it could be argued that portfolio invest-

ment gain is contingent upon factors other than country to country's fluctuations in exchange rate i.e. the valuation of company's share is dependent for example on the level and the stability of profits⁽⁵⁸⁾.

Locational Factors affecting FDI:

Empirical evidences in this respect demonstrate that the role of locational factors seem to differ substantially in terms of their influence on the decision concerning FDI. Examples of studies which concentrate on examining the determinants of FDI decision can be summarised as follows:

(A) Investment Climate:

Survey evidence examined by Aharoni⁽⁵⁹⁾, leads him to conclude that at the initial stage of foreign investment decision, the incentives offered by host countries are not at all considered by firms. Similarly, Reuber et al⁽⁶⁰⁾, has pointed out that incentives canⁿot have much effect on the total flow or influence on its geographical distribution compared with the other factors.

In terms of political stability, foreign exchange factors, limitation on foreign ownership incentives, and attitudes towards FDI, etc. According to tables (B-4) and (B-5) below it could be argued that both Bmncs and U.S. Mncs are not very much concerned with some investment climate's factors (and in some cases the barriers to trade and cost factors) compared with other factors, namely marketing factors.

Table B-4 - Reasons cited by British Parent Companies for their investment in India & Pakistan

Reason	Order in which reasons was cited				Total Responses (Out of 71)	Possible Number of cases in which the response was not cited
	1	2	3	4		
					No. of Cases	
New Market/Geographical diversification	36	11	3	-	50	21
Protecting existing market	30	9	5	-	44	27
Overcoming tariff barriers	1	14	6	4	25	46
Matching Competitors	-	4	1	3	8	63
Using patents/Licensing equipment	-	10	11	1	22	49
Lower Cost Conditions	-	1	-	-	1	70
To obtain materials/facilities/resources	1	4	7	1	13	58
Host Government incentives/political stability	2	2	4	1	9	62
Other reasons	1	1	1	2	5	66
Total Responses	71	56	38	12	177	

Source: J. W.C. Tomlinson, The Joint Venture Process in International business: India and Pakistan,

London: The M.I.T., 1970., p.26.

Table B-5 Determinants of United States* Foreign Direct Investment - Summary of Selected Surveys

Number of times factors mentioned	(a) Foreign investment in general					(b) Investment in specific countries			
	Robinson (1961) (1)	Behrman (1962)	Deal (1966) (2)	Wolde (1968)	Forsyth (1972) (3)	Australia Brash (1966)	New Zealand Doane (1970)	Scotland Forsyth (1972) (4)	Ireland Andrews (1972)
Marketing factors									
1. Size of market	262 ¹⁾	-	141	-	-	-	21 ¹⁾	-	-
2. Market growth	130	19	150	7	82	89	30	14	28
3. To maintain share of market	-	-	126	12	35	-	-	6	-
4. To advance exports of parent company	-	1	-	-	2	-	-	1	-
5. Need to maintain close customer contact	-	7	-	-	5	-	15	9	-
6. Dissatisfaction with existing market arrangements	-	2	-	25	-	-	-	-	-
7. Export base	148	3	-	-	-	30	-	-	39
	496	33	425	44	124	119	66	30	57
Barriers to trade									
1. Barriers to trade	130	-	-	21	20	70	76	-	11
2. Preference of local customers for local products	-	14	-	-	1	24	-	-	-
	130	14	-	21	21	102	76	-	11
Cost factors									
1. To be near source of supply	-	-	-	-	3	-	14	2	-
2. Availability of labour	209	-	-	-	-	-	-	53	-
3. Availability of raw materials	-	12	114	-	-	-	7	-	-
4. Availability of capital/technology	-	-	70	-	-	-	-	11	1
5. Lower labour costs	79	-	102	-	-	-	-	10	1
6. Lower other production costs	-	7	-	20	-	11	-	-	40
7. Lower transport costs	-	-	-	-	-	22	-	16	1
8. Financial (not all) inducements by government	50	-	-	-	1	12	-	12	65
9. More favourable cost levels	-	-	134	-	-	-	14	-	-
	338	19	429	20	4	46	35	154	85
Investment climate									
1. General attitude to foreign investment	(5)	-	145	6	-	-	10	-	-
2. Political stability	115	-	159	-	-	-	-	-	-
3. Limitation on ownership	20	-	-	-	-	-	-	-	-
4. Currency exchange regulations	103 ¹⁾	-	151	-	-	-	-	-	-
5. Stability of foreign exchange	-	-	131	4	-	-	-	-	-
6. Tax structure	-	-	100	-	-	-	-	-	-
7. Familiarity with country	-	-	-	-	-	-	-	-	-
	240	-	606	10	-	-	10	-	-
General									
1. Expected higher profits	102	20	144	-	-	-	-	-	-
2. Other	252	14	112	5	14	37	39	43	58
	434	34	256	5	14	37	39	43	58
Total (6)	1 630	97	1 796	100	171	304	226	227	203
Number of firms in sample	205	72	214	104	105	100	139	105	80

*Studies refer to United States direct investment, except Doane which relates to all foreign investment in New Zealand.
 1. Number of times factors are ranked 1-3 in a 6-point scale.
 2. Listed as "crucially" or "fairly important" in Deal's 3-point scale.
 3. Reasons given by firms for investing outside the United States.
 4. Reasons for locating in Scotland.
 5. Dealt with separately but regarded as crucially important.
 6. Totals do not always equal sum of individual column entries in source.

Source: John H. Dunning: "The determinants of international production", in N. Hood and S. Young, The economics of multinational enterprise, op.cit., pp. 80-81.

An added example - as shown in Table B-6 below illustrates that factors such as profitability, sales and economic conditions influencing investment decision in foreign markets have been rated high in importance when compared to political conditions and socio-cultural factors.

Table B-6 Ranking of factors which affect investment decisions in foreign countries

Factors	Percentage of companies assessing each rank					
	1	2	3	4	5	6
Sales (27)*	19	22	15	30	7	7
Profitability (32)	72	12	16	-	-	-
Economic Conditions (27)	21	39	36	4	-	-
Political Conditions(24)	-	22	44	30	4	-
Sociological factors (24)	4	4	4	25	55	8
Cultural factors (23)	-	4	4	-	26	66

*Figures in parentheses indicate the number of firms ranking each factors.

Source: R. Pohlman, et al., Policies of multinational firms: A survey. Business Horizons. Vol.19, No.6.,1976, pp.14-18, the Table quoted, p.15.

Based on the foregoing examples, political stability, limitations of ownership, attitude towards FDI and so forth have been regarded as rather weak - by the firms studied - as an important determinants of FDI decision. On the contrary, findings of other studies provide evidence which highlights the importance of the above-examined climate factors.

A survey's results as displayed in table (B-7) concerning variables which appear favourable to influence the U.S. based MNCs' decisions to invest in the LDCs demonstrate that political stability has been rated high in order of importance. In the meantime, allowing foreign majority ownership is regarded as very important as well, while incentives offered by the host government such as income tax, holiday and tariff protection have been rated low in importance. In sum, Table (B-7) highlights the respondents' ranking of selected political, foreign exchange variables and some types of incentives. (Table B-7 on following page).

Meanwhile, Imoisili⁽⁶¹⁾, has conducted a study aimed at pointing out the key success factors in Mncs and the indigenous companies operating in Nigeria. Environmental factors (economic, legal/political, etc) were among the variables that have been assumed to influence the success of the companies studied. In general, this study provides evidence to suggest that⁽⁶²⁾:-

- a. The Mncs are more worried about political stability and the possibility of government legislation with adverse effects for them.
- b. Social-cultural and infrastructural factors (eg. telephone, water, power, etc) are respectively the greatest source of uncertainty for both the indigenous and multinational firms. Nigerian companies (especially those government owned) have to worry about the ethnic balance of their workforce if they

Table (B-7) - Ranking of selected political variables, foreign exchange variables and selected incentives in LDCs.

	Number of Respondents					Total	% Total
	1	2	3	4	5		
1. Political variables:							
- political stability	1	2	17	59	28	107	97
- absence of strong radical groups	2	12	29	37	27	107	87
- absence of negative attitude toward foreign private investment	2	26	41	28	10	107	74
- Availability of political risk insurance	8	34	22	25	18	107	61
2. Foreign exchange variables:							
- Currency stability	2	12	44	33	15	107	86
- ability to repatriate profits and capital	1	24	38	32	11	106	76
- availability of local capital	14	27	32	28	6	107	62
3. Tax Concessions, foreign ownership & labour laws variables:							
- host country allowing majority foreign ownership	2	10	27	46	22	107	89
- absence of rigid labour laws	2	27	42	33	2	106	73
- host country willingness to grant import duty concessions	5	28	42	27	4	106	69
- host country willingness to grant income tax concessions	5	36	38	33	6	107	62
- host country willingness to grant tariff protection	17	35	33	30	2	107	51

(a) Code: 1 = not important at all, 2 = not very important, 3 = important, 4 = very important, 5 = absolutely necessary.

(b) Difference between this total and 107 is due to no answers.

Source: H. H. Elsaid and M.S. El-Hennawi. Foreign investment in LDC,: Egypt. California Management Review, vol. XXIV, No. 4, summer 1982, pp. 85-91.

are to avoid charges of tribalism, favouritism or sectionalism.

- c. Because the Nigerian firms are being helped by favourable legislation which puts more business exclusively into their hands. Under such circumstances, Mncs put a lot of stress upon the uncertainty of Nigeria's economic factors, despite the fact that most of European subsidiaries have enjoyed near-absolute monopoly in the Nigerian market from the colonial times.
- d. Due to the scarcity of qualified managerial and technical talent the indigenous companies are less able to compete with the older and more established Mncs for their required manpower.

Furthermore, incentives offered by the developing countries as well as the influence of political stability on FDI have been examined by Agarwal⁽⁶³⁾. It was found that the political stability in a developing country has a negative impact on the flow of direct investment. Regarding the incentive offered and particularly that of related pre-conditions of performance requirements such as restrictions on ownership size, location, export or local content requirements, etc. on the whole it was found that these pre-conditions that investors have to fulfil to be eligible for incentives may have an influence on decisions comparable to that of the incentives themselves. This result in fact may explain the contrast between the importance of the incentives programmes and their effect on FDI in developing countries⁽⁶⁴⁾.

In terms of cultural factors influencing FDI decision and activities, Hill and Still⁽⁶⁵⁾, have surveyed 61 subsidiaries of consumer packaged goods manufacturers, operating in 22 LDCs in order to underline the obstacles to transferring modern products to developing markets and to discover how firms manage the process of adapting consumer products to LDCs markets, etc. The findings of this survey demonstrate that industrial and consumer durables goods which are less culturally sensitive may have a greater potential market in the LDCs, while consumer packaged products such as food, drinks, etc. are extremely sensitive to cultural differences (in a country such as Saudi Arabia information concerning product-use expiry date, etc, must be printed in Arabic and English. All products also must conform to the prevailing religious and social taboos)⁽⁶⁶⁾.

Regarding the attitudes towards FDI and specifically toward MNCs, it is partially clear as demonstrated in table (B-5) that Mncs are not very much concerned with the general attitude to foreign investment or the limitations on ownership in all cases studied. By contrast table (B-7) illustrates that most of Mncs surveyed have rated the limitations on foreign equity in the first place of importance. To shed more light upon these issues, it may be useful to provide other examples. Table (B-8) will briefly illustrate the perception of two developing countries elites (namely Chile and Venezuela) as to Mncs contributions compared with the national firms, while table (B-9) will

show precisely the major issues confronting Mncs in six developing countries in the Far East and Latin America (namely, Brazil, India, Malaysia, Peru, Singapore and Thailand).

Table B-8 Attitudes towards Mncs of elites in Chile & Venezuela (%) views of social and economic impact.

	Chile				Venezuela			
	Type of Firm				Type of Firm			
	National	US	Other For.	Mixed O/Ship	Nat.	US.	Other For.	Mixed O/Ship
Very beneficial	43.2%	24.1%	24.2%	38.8%	59.3%	16.1%	15.9%	30.0%
Beneficial	41.7	50.4	50.0	44.2	30.7	53.1	50.0	54.6
Neutral	14.4	18.8	20.5	16.3	8.7	16.8	19.7	12.3
Harmful	.8	6.8	5.3	0.8	1.3	9.1	9.8	1.5
V. Harmful	0	0	0	0	0	4.9	4.5	1.5

Principal advantages of foreign investment for country	Chile		principal disadvantage	Venez.	
	Chile	Venezuela		Chile	Venez.
-Brings in Capital	48%	20%	political & economic depend.	24%	27%
-Brings & develops technology	19	31	company benefits more than host country	23	26
-Economic support & development	18	25	Harmful to economy	20	15
-Creates employment	7	7	Negative effect on balance of payments	10	17
-Other	8	17	Other	23	15

Source: N.S. Truitt and D. H. Blake, "Opinion leaders and private investment." Mentioned by J. Fayerweather. International business strategy and administration Cambridge: Ballinger publishing co., 1982, p.150.

Table (B-9) - Issues that caused conflicts between Mncs and the host countries (interview responses) (N=124 Mncs)

Conflicts	Far East	Latin America	Both Areas	Total*
- Equity participants by locals	13 14 0	0 0 1	13 14 1	28
- Management control in the hands of local nationals	15 17 13	2 3 2	17 20 15	52
- Control of exchange	2 3 0	0 1 0	2 4 0	6
- Controls of imports	3 0 1	0 1 0	3 1 1	5
- Expansion of exports	3 2 2	1 1 0	4 3 2	9
- Transfer pricing (pricing policies)	6 6 2	5 2 0	11 8 2	21
- Use of local inputs	0 2 0	0 0 0	4 3 2	2
- Interference by host government in corp. affairs	2 2 0	0 1 0	2 3 0	5
- Contributions to economic plans of host nations	2 0 0	2 0 0	4 0 0	4
- Interference with socio cultural norms	1 0 1	1 1 0	2 1 1	4
- Interference by Mncs home governments with host government policies	1 0 0	1 0 0	2 0 0	2
Total	48 Total 113	12 10 3 Total 25	60 56 22 Total 138	138

* Three point scale were used (high intensity, moderate and low).

Source: A.R. Negandhi and B.R. Baliga; "Quest for Survival and Growth", in A.R. Negandhi and B.R. Baliga. Tables are turning: German & Japanese multinational companies in the United States, op.cit., p.65.

It is clear that the perception of national elites in Chile and Venezuela was overwhelmingly favourable with regard to the contributions of the Mncs examined (table B-8). At the same time, both national and mixed firms were clearly rated significantly higher than Mncs. Interestingly, capital contributions made by Mncs were considered as a major advantages in Chile. By contrast, in the case of Venezuela, regarded as of more importance were transfer of technology and general economic contributions of Mncs.

As to the issues that caused conflicts, from table (B-9) there are probably three main issues dominating the scene, i.e. they were considered to be a major problem. These issues are equity participation, a desire to retain control in the hand of local nationals and transfer pricing. In other words, the results are somewhat similar to those shown in Table (B-7) where a certain fundamental demand is required by the Mncs executive managers interviewed. This demand tends to be more freedom in terms of determining the firm's policies and controlling their operations. At the same time, the host countries are also concerned with maintaining more control over Mncs activities in order to eliminate the adverse impact upon the national economy which may be caused by these firms.

Moreover, as table (B-9) shows, very few of the problems of the Mncs were associated with the socio-cultural issues. A similar trend/result was also observed

by the U.S. State Department in their analysis of conflicts between U.S. Mncs and host governments during the period 1960 through 1971 as shown in table (B-10).

Table B-10 Issues that caused conflicts between U.S. investors & the host countries (U.S. State Dept. Study)

	1960	61	62	63	64	65	66	67	68	69	70	71	Total
Equity	-	1	1	-	2	2	1	3	-	5	39	74	128
Participation	-	-	-	1	-	-	-	-	-	-	-	6	7
Pricing Policy	-	-	-	-	-	-	-	-	-	-	-	3	3
Control by government	-	1	1	2	12	-	-	-	1	2	26	25	50
Expansion of Exports	-	-	-	-	-	-	-	-	-	-	-	-	-
Interference with host economy	-	1	-	-	-	-	-	-	-	-	-	14	6
Interference with soc.cultural norms	-	-	-	-	-	-	-	-	-	-	-	-2	2
Interference by Mncs host governments with host government policies	-	-	-	-	-	-	-	-	-	-	-	-1	1
Conflict with national sovereignty	-	-	-	-	-	-	-	-	-	-	1	-	1
Total	-	3	2	3	14	2	1	3	1	7	47	115	198

Source: U.S. State Department "Disputes involving U.S. Foreign Investment" in A. Negandhi and B. Baliga. Tables are turning, op. cit., p.66.

(B) Marketing and Cost Factors:

It could be a risky proposition to assume that the previously locational factors (investment climate and other economic, socio-political factors) have no role to play in terms of the decision of FDI. Indeed, the role played by each individual factor - examined in the foregoing research may vary substantially from one host country to another particularly with regard to the political risk or the incentives offered etc. But it is possible that for the existing Mnc in a given host market, factors ^{su}uch as political stability, tax concessions and availability of local capital etc, can be seen as low in importance. Partly because of the guarantees that already given by either or both the host and home governments, partly because of the enormous financial capabilities of the Mncs.

Having expected that, there are however, factors other than the preceding ones that might exert much influence on FDI decision. Based on tables (B-4), (B-5) and (B-6) as well as the following tables (B-11) and (B-12) it could be argued that:

A. Marketing factors (the size of market, market growth, establishment of export bases, sales, protecting existing market, and so forth) have been regarded as of great importance to the Mncs concerned rather than other factors in investment climate.

B. Cost factors (such as availability/obtaining raw material, lower cost conditions, financial inducements by

Table (B-11) The most important factors that led firm to make its first foreign investment in production facilities

Response	Number of Firms
Of two firms citing "push" factors:	
- to get capital out of U.K.	1
- already making good profits in U.K., little further scope	$\frac{1}{2}$
Of twenty-four firms citing "pull" factors:	
- to enable us to compete effectively with local firms.	6
- there is a large market overseas	5
- to get a production base in the EEC	8
- U.K. Market absorbs all our U.K. production and so foreign markets have to be supplied from elsewhere	1
- so our product will be associated with one manufactured there	1
- the export tax relief available there	1
- the materials supplies are located there	1
- the necessary labour was available there and not here	$\frac{1}{24}$

(*) Sample size = 43 firms.

Source: G.D. Newbould, et al., Going international: The Experience of Smaller Companies Overseas, London: Associated Business press, 1978, Table (4-4), p.55.

Table (B-12) Subsidiary (motivational) factors were important in the first foreign venture.

Response	Number of Firms
1. External approaches	5
2. Push factors	
- Transport cost/delivery problems from U.K.	4
- Ancillary cost problems in U.K.	1
- To avoid manufacturing in U.K. (union problems)	1
- No further expansion in U.K. for tax reasons	1
- Fear of U.K. monopolies commission	1
3. Pull Factors:	
- The size of the market	13
- The need for local adaption, or resident production	9
- To get a European production base	5
- To ensure exports of intermediate goods	4
- It's a nice country	3
- Room for expansion	3
- Personal/family links	3
- Tariff/import licences	2
- To compete effectively with locals	2
- To get access to skilled foreign management	1
- To ensure supplies of inputs	1
- To get access to host government contracts	1
- To have a factory in commonwealth	1
- Access to foreign technology	1
- Host country grants	1
- Had to manufacture to maintain potents	1

(*) Number sums more than forty-three due to multiple responses.

Source: Ibid, derived from Table (4-5), p.58.

government) have been considered low in importance in some cases compared with other cost factors such as availability of labour and lower labour costs.

C. Perhaps the most interesting point demonstrated by Table (B-4) vs. table (B-5) is that most of the cost factors are varied when developed and developing markets are compared. Cost factors as opposed to marketing factors, seem to be low in importance.

D. Mncs are much concerned with the rigid labour laws in the host countries (Table B-7).

E. Profitability objective seems to be the most common reason for overseas investment. In this respect, it was found in a study by Piercy⁽⁶⁷⁾ that the vast majority of the British firms surveyed pursued the same goals in U.K. market and export marketing. Their major objectives were primarily associated with profit in both the U.K. and export markets⁽⁶⁸⁾. Respondents in the same survey were asked to explain their reasons for exporting to a large number of country markets. The main reasons reported were linked with sales volume maximisation, risk reduction and product specialisation⁽⁶⁹⁾.

(C) Barriers to Trade^(*)

Initially, in the light of the preceding evidences (as displayed in tables B-4, B-5, B-11 and B-12) it has been illustrated that the attention paid by the companies surveyed to the barriers to trade is relatively low compared

(*) The analysis of the relationships between international trade and FDI is well beyond the major concern of the present study.

with other locational considerations. But host countries' willingness to grant import duty concessions for example has received considerable attention in some cases (see Table B-7).

Far beyond the above evidence other research findings have demonstrated that many Third World Countries place severe restrictions on the import of consumer durable and other types of goods. Among the reasons generally given for the pursuit of such restrictive trade policies are: the limited foreign exchange reserves, the need to optimally allocate scarce resources towards priority imports such as oil, machinery, capital equipment etc. and to nurture and promote national industrial development⁽⁷⁰⁾.

Even on the part of the developed countries, there is a growing tendency towards the adoption of protectionism policies either by imposing severe tax and customs duty on the imported goods for example, or through controlling the export of high technology. In short, a combination of economic, political and cultural factors may influence international trade. Examples in this respect can be summarised as follows:-

(a) Varadarajan⁽⁷¹⁾, has pointed out that: in 1980 the import of a wide variety of consumer durable goods (such as TV, video cassette recorders, appliances, all consumer and professional electronic systems/equipments, TV games, radio receivers, etc. and many consumers goods items) for personal use or resale is banned by the Indian Government

since a number of Indian firms indigenously manufacture and market these products. As a result, most Japanese brand name goods that are heavily advertised in India's mass media are not available through the conventional line of trade retail outlets in India.

(b) For cultural reasons, the French Government imposed tough measures and curbs on TVRs imports in 1983⁽⁷²⁾.

The U.S. government prohibits the export of high technology to USSR, she attempts also to impose extraterritorial controls on U.S. companies in Europe and their licenses with a tough warning that the government has every right to take such action in its own national security interest⁽⁷³⁾.

(c) Hooley and Newcomb⁽⁷⁴⁾, among other have pointed out numerous reasons behind the decline in export performance by British industry between 1962 and 1980 (during this period the U.K.'s share of world trade fell from 16.5% to 9% while Japan's share rose from 8% to 14%)⁽⁷⁵⁾. The failure of British firms to adapt to foreign market requirements and the cultural myopia were among the reasons behind the decline of British exports of manufactured goods⁽⁷⁶⁾. In other words, the divergences in language, consumer tastes and behaviour and other cultural factors between a Mnc domestic market and an overseas one can be a significant hindrance to trade.

D) As the agreements/establishment of regional groups/ organisations e.g. EEC, LAFTA, the Arab Common Market, etc. provides for the gradual dismantlement of tariffs and quantitative (quotas) restrictions on trade between the member countries. Such agreements may influence international trade flows as well⁽⁷⁷⁾.

E) Imports of the right-hand drive cars are completely banned in Egypt. Only spare parts for such cars can be imported⁽⁷⁸⁾.

F) As a result of the 1977 Camp David Peace Treaty between Egypt and Israel, Egypt's exports to the Arab markets fell by 20% in 1978 (because of the Arabic countries boycott practices⁽⁷⁹⁾). In the meantime, the Israeli market has been opened to the Egyptian exporters. In 1982, for example exports to Israel accounts for 14.2% of the grand total of Egypt's exports⁽⁸⁰⁾.

In general, barriers to trade are numerous. Also they are not confined to one country perse (developed or less developed). Different cultural preferences, national tastes and standards, business institutions, national rules of the road, laws, urbanisation level etc. may make it difficult for many companies to export domestic products and processes. Business history demonstrates that many Mncs have tried to standardize world practice by exporting domestic products without accommodation or change and have failed drastically⁽⁸¹⁾.

Finally, empirical evidences on the role palyed by the locational factors as determinants of FDI decision are numerous. Further evidences will be demonstrated in the next section and more specifically those that are related to the Middle East Markets. In the meantime, it could be argued that the influence of locational factors on FDI decision cannot be neglected, but it has been established that there is a substantial difference between these factors in terms of the extent to which they exert influence on the decision for FDI. Also, the effects of the locational factors on FDI decision can vary from one couuntry to another; from one industry's product to another (even for the same product from time to time according to the stages of its life cycle).

D. The Role of Factors in Economic, Political and Cultural Development

No examination of locational factors influencing FDI decision in a given country can be complete without some reference to its salient economic, political and cultural characteristics as well as the relatd problems. Indeed, several examples related to the developing countries' environment have been reproted earlier, but it has been seen important to underline the major features of the developing countries and some problems which may be linked with their features/characteristics.

In this respect, literature and research on identifying

the characteristics of developing countries are numerous, massive and might be well beyond the scope of the current study. At the same time, almost all economic and socio-political studies have established a wide range of characteristics of developing countries. Weisskopf⁽⁸²⁾, for example has pointed out the following characteristics of many developing countries in general:

- ° Low income and large gaps in income distribution, in addition to the lack of development in many areas such as health services, education, etc.
 - ° Dependence on few export goods mainly primary commodities for foreign exchange, and inefficient industry and agriculture.
 - ° Persistent dualism.
 - ° Low political participation and social atrophy as well as social anomalies. Additionally, political and economic power concentrated in a small cohesive elite.
- Fritsch⁽⁸³⁾ has illustrated the major large gaps which

exist between developed and developing countries. He cites the following ratios between the developed and the developing countries (1978):-

- a. per capita income 30:1
- b. energy consumption 10:1
- c. R & D expenditure 300:1

On the basis of Nurske⁽⁸⁴⁾ theory of balanced growth, it is clear that the lack of capital, low productivity, low inducement to invest, little buying power and a small

real income are the most common characteristics of the developing countries. Furthermore, Table (B-13) shows selected demographic indicators and development gaps in both developing and developed countries.

Table B-13 The Development gap, by groups of countries

	Developing Countries	Developed Countries
Mid-1979 population (millions)	3,244.5	1,074.2
Average per capita GNP (1979)	\$ 597	\$6,468
Average PQL1 ^(a)	57	94
Average birth rate (per 1,000)	32	15
Average death rate (per 1,000)	12	9
Average life expectancy (year)	56	72
Average infant mortality rate (per 1,000 live births)	96	18
Average literacy rate	52%	99%
Average per capita education expend.	\$19	\$286
Average per capita military expend.	\$29	\$300

(a) Each country's PQL1 (physical quality of life index) is based on an average of life expectancy at age one, infant mortality and literacy.

Source: Quoted from J.Sewell, "The United States and World Development: Agenda for 1980" in H. Etemad, "Is Marketing the Catalyst in the Economic Development process" in G.S. Kindra, (Ed.), Marketing in Developing Countries, London: Croom Helm, 1984)p.30.

Eventually, O'Brien and Kisanga⁽⁸⁵⁾, Mhaeswaran⁽⁸⁶⁾, Jorgensen et al⁽⁸⁷⁾ have demonstrated that most developing countries are characterised by the domination of state-owned enterprises in several areas of economic activities. State-owned enterprises no longer confine their activities to a few standard areas e.g. infrastructure, water, electricity, rail and so on. Data from the end of 1970's/early 1980's covering a wide range of developing countries bear out the point: the share of the state-owned enterprises in total manufacturing investment was over 80% for countries such as Algeria, Syria; and about 60-80% in India and Pakistan, from 40-60% in Turkey, Tunisia, etc.⁽⁸⁸⁾ Meanwhile, the large gap in effectiveness and the technological and other capabilities between Mncs and the state-owned enterprises is evident. State bureaucracy, lack of marketing ^{ns}institutions, lack of skilled manpower and so forth are likely to be the major handicaps affecting both the state-owned enterprises and Mncs performance^{(89),(90)}.

The extent to which the preceding characteristics of developing countries may influence FDI decision can be illustrated through the following examples of empirical findings:-

- 1. Thunell's study⁽⁹¹⁾, demonstrates that: Market size measured by the GNP is the most powerful variable for explaining the level of the investment flow.

There was little correlation between the flow of investments and GDP, GDC (Gross Domestic Capital

formation), exports and inflation in some Latin American countries including Italy. In a few cases such as Spain and Mexico the coefficients are high. As to the low correlations between the variables examined, it has been suggested that even if the direct importance of the economic situation is minor, there shall be an indirect relationship via the government and its policy, influencing both the economic situation and the FDI.

2. Schöllhammer⁽⁹²⁾, has examined the relationships between per capita GNP, income distribution, capital formation, food supply as well as other political factors such as fractionalisation among political parties, political strife, violent deaths, riots, etc. and the political stability in developed and developing countries. The results show that all indicated relationships with the exception of per capita income and income distribution are positive. ie. the greater the individual variable, the greater the potential for political change and political risk. A higher per capita income and a relatively high equality in income distribution tend to reduce incidence of political change. Additionally, the developed countries reflect-to varying degrees- a lower political risk than the majority of the developing countries because the former enjoy higher per capita income⁽⁹³⁾.

At the same time Thunell⁽⁹⁴⁾, has found that a decrease in investment is often associated with a high level of instability but almost as often there is a very weak reaction or no reaction at all. Green⁽⁹⁵⁾, has also demonstrated that the relationship between foreign investment and political instability was found positive in some countries (e.g. Japan, India, Australia, France, U.K.); also in other countries (e.g. Chile, Argentina, Denmark) it was found statistically significantly negative, while correlation was negative but not statistically significant in Peru, Mexico, South Africa and others.

3. A regional analysis of expropriation by host governments between 1960 and 1976 revealed that Latin American countries were responsible for 49% of all U.S. expropriation, the Arabic state for 27% the Black Africa for 13% and the Asian states for 11%⁽⁹⁶⁾. This in turn means that the risk of expropriation is still quite real threat.
4. In the light of a demographic factor such as size of population as an indicator of market potential⁽⁹⁷⁾, it may be established that the developing countries are able to offer a very promising market size for the Mncs.
5. Finally, a review of other empirical research findings on marketing problems associated with the previous characteristics of developing countries points to a common concern-shared also by many scholars about

the following problems:

- A. Limits to media opportunities for advertising because low TV and radio ownership also limits choice of advertising copy and media due to low literacy rates.⁽⁹⁸⁾
- B. Difficulties and cost of exploiting market opportunities in rural areas because of under developed physical infrastructure and poor communication networks⁽⁹⁹⁾.
- C. Dual economy and government-controlled prices result in import restriction on many consumer goods affecting the size of market for certain goods⁽¹⁰⁰⁾.
- E. The underdeveloped marketing systems/institutions and continued neglect of the development of the distributive sector are a result of ineffective economic planning⁽¹⁰¹⁾.
- F. Low literacy rates, lack of good research facilities and trained researchers, absence of professional research organisations, etc make it difficult to conduct marketing research⁽¹⁰²⁾.

Broadly speaking, it could be argued that the inadequacies and economic and socio-political Lag/under-development, in addition to several areas of marketing imperfections evidenced in developing countries - compared with the developed ones - can influence FDI to a great extent. In conclusion, a little reflection suggests that

a developing country cannot have a sizeable FDI flows without a correspondingly hospitable business and marketing environment. At the same time, it could be argued that in spite of the common pitfalls shared by almost all the developing countries, it should be noted that the intensity and impact of such pitfalls on FDI may differ substantially from one country to another due to other factors (e.g home-host government relationships/ties, differences in many other cultural, political areas and level of economic development, etc) which have not been discussed in this study^(*).

The Product Cycle

It has been argued on earlier occasions that for reasons such as the barriers to market entry and trade, Mncs may shift from servicing foreign market by exports during the early stages of the product life cycle to FDI in order to capture the remaining profit derivable from the technology embodied in the product. Or in some cases, before the mature stage of a given product a Mnc may operate abroad because of, for example, cost factors or other host-home market specific factors. In sum, despite the limitations on the theory of the product cycle, empirical research provides evidence to illustrate that there is a relatively sizeable growth of technology exports

* Some of these differences or factors will be considered in the next section ie. in the Middle East perspective.

from some developing countries e.g. Brazil, Hong Kong, Taiwan to the innovating states. Exports of semi-conductor products, from the developing to the developed countries is one example (103).

Another example is that the export of auto products from the developing countries to the OECD countries. Table (B-14) shows the value and lists the major OECD importers of auto-products from developing countries. As demonstrated in the table concerned it seems on the importing side that the U.S. imported the largest amount (56% of OECD total) from developing countries particularly Latin American countries.^(*) On the exporting side it is clear that Mexico is the largest exporter to OECD, accounting for 40% of the total from the developing countries, Brazil is next, followed by Argentina which mainly sells to the U.S.

It is not surprising however, that because of marketing barriers or locational cost factors it is possible that for an innovating country such as U.S. for example to be an importer and to place greater reliance on its Mncs affiliates abroad to supply the home market with a product which has been originally invented/produced domestically.

Moreover, the U.S. was a major exporter of radio receivers after the World War II. As the technology became known abroad specially in Japan, the U.S. imported large quantities of radios (104).

(*) Table (B-14) follows in next page.

Table (B-14) - Major OECD importers of automotive products from developing Countries 1979.

(Value in \$1000)

Destination	All OECD	U.S.	Canada	Japan	Fed. Rep. of Germany	France	U.K.	Other
Total Imports	89008.8	24483.8	11664.6	705.8	8183.0	5914.0	8274.0	29782.8
Total Developing*	737.4	409.7	27.4	17.1	130.9	23.3	22.7	106.3
Latin America (**)	506551	229704	12319	1268	118895	15030	3282	56053
Brazil	179667	104163	772	71	28457	5642	1953	38609
Mexico	297356	185699	11506	1137	89254	5728	177	3855
Argentina	18167	4379	-	1	91	1038	178	12480
Colombia	3078	609	-	-	-	2462	7	-
Africa (**)	11558	8	0	7	362	4090	1632	5459
Morocco	3753	4	-	-	-	3319	-	430
Egypt	881	-	-	-	-	-	96	785
Asia (**)	219268	109974	15057	15857	11664	4154	17776	44786
Singapore	8026	3325	80	3699	13	80	313	516
Philippines	32729	545	-	6240	7507	-	2875	15562
Korea, Rep. of	30022	12152	3161	3523	39	15	33	11099
India	10638	2453	139	9	1282	80	2141	4264
Hong Kong	6962	2793	1370	75	85	14	406	2219

(*) Total developing = Latin America + Africa + Asia.

(**) Because of excluding other countries the grand total does not equal to the value of exports of each country on aggregate.

Source: Quoted from OECD "Trade by Commodities: Imports" in U.N. Centre on Transnational Corporations. Transnational Corporations in the international auto industry. New York, 1983, vol. 14, p.38.

Once again, while the above examples illustrate the applicability of the product life cycle approach this applicability has tended to be contingent upon several factors among which are the characteristics of products i.e. products which tend to be standardised or imitated are likely to be produced elsewhere and exported to the country of origin.

In the meantime Hood and Young⁽¹⁰⁵⁾ have argued that "the product cycle model is essentially concerned with the innovation trade and investment of nationally-based firms, rather than with international production by a true multinational company of world-wide operation". The Mnc "requires to be in a position to innovate in products and processes in any of its markets, and indeed initiate the development phase of the product cycle from any of these markets". Having said this, the industry studies show that many Mncs commenced international production via a product cycle type of expansion from their home base⁽¹⁰⁵⁾.

Finally, while the LDCs at any given time may appear to be at the appropriate stage in relation to Mncs products, Camillus⁽¹⁰⁷⁾, and Wright et al.⁽¹⁰⁸⁾, have argued that there are socio-cultural, economic-technological and political-legal factors might affect foreign production in the LDCs. For instance, Lever Brothers' introduction of packaged convenience foods in India was based on the experience of a technology-driven context in the West. In India, the packaged convenience food industry was driven

strongly by social changes and the incompatibility of Lever's technology driven strategy and the local market driven life cycle had the inevitable unfortunate result⁽¹⁰⁰⁾. An added problem, peculiar to the Mncs operations, is the need to conform with the host government's developmental preferences. The Mncs, for example, may bring in the appropriate products and technology, but the government of the LDCs may strongly object to the socio-cultural changes resulting from the momentum provided by the imported technology. On the other hand, progressive government, may demand leap-frogging technology that may not be economically viable but is a means of accelerating desired changes⁽¹¹⁰⁾.

Finally, in the textile industry Lancaster and Wesenlund⁽¹¹¹⁾, have examined the applicability of IPLC on the basis of investigating the production of cotton fabric in nine countries (developed and underdeveloping) from 1956 to 1980. Their analysis provides evidence that demonstrate that:⁽¹¹²⁾

A. The figures for the U.S. shows a decline in cotton fabric production during 1956 up to 1965. From 1965 to 1975 there has been a rapid decline in the production which may partly be due to the increased use of synthetic fibres, but the 1977 MFA II has heralded a resurgence in production and protection from imports imposed by the agreement. As to the U.K. the picture is similar, ie. the U.K. product also fits the decline stage of the PLC.

B. The figures for developing countries (during that period) e.g. Hong Kong, show a striking difference in direction. From 1956 to 1971 Hong Kong was subject to rapid growth in its production of cotton fabric, a line which fits the growth stage of the PLC. Despite the 1977 MFA II it ~~do~~es not create any drastic effect, therefore, the production of cotton fabric in Hong Kong is arguably being forced into the maturity stage of the PLC.

C. Asia and Oceania now trade in more cotton fabric than America or Europe ever did.

In sum, the theory of IPLC has been found to operate using the Example of cotton fabric. But Lancaster and Wesenlund⁽¹¹³⁾, have argued that this operation is naturally not as perfect as the theoretical model which does not take into account the many factors which have affected trade in cotton fabric such as competition from the development of synthetic fibres and the protectionist policies prevalent in developed countries.

As has been stated earlier, the applicability of the IPLC theory is considerably contingent upon numerous factors. Product-specific characteristics, the imposition of trade measures and curbs the changing need, tastes, behaviour of the consumer and so forth are among the factors which to a great extent may influence the IPLC validity.

1.3 The Role of Factors in Marketing and Investment Climate in FDI Decision Making in the Middle East Perspective

In accordance with the foregoing discussion, it could be argued that the process of determining which profitable opportunities and potential prospects the host market is willing/in a position to offer for the incoming new Mncs is not easy. The Mncs decision whether or not to invest in a given host market will probably vary from country to country and depend on many factors as already demonstrated.

Meanwhile, it could be a risky proposition to state too strongly that a Mnc with enormous financial personnel technological advantages etc. will be able to get access to a given host market. Mncs capabilities may be seen as a sufficient condition/qualification for entry or going overseas, but the necessary conditions are considerably dependent upon the host partner of the investment venture. A host country with limited market potential, small resource endowments, costly labour force, etc., May not be able to attract foreign investment even with no limitations and restrictions on ownership or doing business in general. Both, however, are arguably required for the FDI decision to take place, a capable Mnc and a hospitable investment climate as well as marketing conditions in the host market on a relatively satisfactory basis.

Because of growing competition among developing countries for foreign investment, they often try to attract

Mncs by offering a wide range of incentives which are probably similar in many of these countries. Taking into account that the incentives offered - as the empirical evidence has already illustrated are likely to play only a subsidiary role in attracting more FDI, the question seems to be associated with the factors that may enter into each individual country's assessment and the Mncs decision and ranking of priorities and acceptance of the host markets potential.

In accordance with the preceding sections, it is clear that there are a number of factors upon which the FDI decision can be taken. The present section is therefore, concerned with highlighting the prospects of the Middle-Eastern countries for FDI. As far as the current study is concerned, the major factors which will be outlined are mainly the locational ones. It is also important to note that as the variables used in screening countries are based on the locational approach, a number of indicators are therefore selected and used to make a subjective evaluation of the countries under investigation. This evaluation will, however, be carried out on the basis of some economic, demographic, cultural and political measurements/factors used and suggested in the previous research and literature^{(114), (115)} as follows:

(1) Economic factors: e.g.:-

(A) GNP/GNP per capita: The attraction of a given host market can be underlined on economic basis by several

criteria. GNP and GNP per capita can for example be used as a rough guide to the size of market and the purchasing power of a country. Despite the limitations on such criteria, it has been argued that a country with a high GNP will probably attract Mncs and more foreign investors. Conversely, a country with low GNP will possibly find it difficult to bring in mainly Mnc manufacturers⁽¹¹⁶⁾. It has been also argued in the previous section that a tight relationship exists between country's GNP and the inflow of FID.

It may, however, be useful to highlight both GNP and GNP per capita in the Middle East perspective as shown in table B-15) compared with some developing countries.

As based on table (B-15) it is clear that there are substantial differences among both the Middle East and other developing countries. But it could be argued that the Middle Eastern countries represent a relatively promising and large market size compared with other developing countries. At the same time, it should be kept in mind that data concerning GNP and GNP per capita needs to be supplemented by further economic indicators in order to provide a more reliable picture of the market potential. In other words, a country may enjoy a high GNP per capita, for example, but may also suffer from a high inflation growth rate and this in turn will influence the purchasing power. Additionally a Mnc whose markets lie in the services or the extractive sector for example, may need to have a

(*) Table (B-15) follows on next page.

Table (B-15) - GNP, GNP per Capita and GNP per Capita growth rate for the Middle Eastern and other developing countries*.

(Value in \$ millions)

Middle East				Other Developing Countries			
Country	GNP 1980	GNP per capita amount 1979	GNP per Capita growth rate 1970-79	Country	GNP 1980	GNP per capita amount 1979	GNP per capita growth rate 1970-79
Algeria	36,410	1,770	2.8%	Chile	23,980	1,890	0.8%
Bahrain	2,350	n.a.	n.a.	Pakistan	24,870	270	1.5
Egypt	23,140	500	5.3	Malaysia	22,410	1,450	5.4
Emirates,UA	26,850	n.a.	n.a.	Hong Kong	21,500	3,640	6.5
Iran	n.a.	n.a.	n.a.	Peru	16,470	850	0.2
Iraq	39,500	2,710	9.3	Singapore	10,700	3,770	6.7
Israel	17,440	4,230	1.6	Kenya	7,790	390	2.6
Jordan	3,270	1,200	6.0	Zimbabwe	4,640	550	-1.7
Kuwait	30,900	20,250	1.4	Nigeria	85,510	910	0.2
Libya	24,730	8,480	-1.6	E.Cuador	10,230	1,110	5.4
Lebanon	n.a.	n.a.	n.a.	Ethiopia	4,320	120	0.3
Morocco	17,440	0,780	3.5	Philippines	34,350	640	3.9
Oman	3,900	n.a.	n.a.	Uganda	3,750	290	-3.5
Qatar	6,020	n.a.	n.a.	Tanzania	4,780	250	0.8
S.Arabia	100,930	9,960	9.6	Guatemala	7,790	1,010	3.1
Sudan	8,640	450	1.5	Angola	3,320	430	-9.6
Syria	12,030	1,170	4.6	Chad	530	120	-2.4
Tunisia	8,340	1,160	5.7	Mexico	44,000	1,880	1.9
Yemen,AR of	2,620	420	n.a.	S.Leone	950	250	-1.2
Yemen,PDR	0,810	370	n.a.	Sri Lanka	3,990	230	2.5
Average (+)	26,266 23,639 (**)	3,655 2959 (**)	4.14 2.5	-	21,794	951.5	1.17

NA = not available

* All figures at market prices.(+) calculated by the researcher (**) included n.a. cases

Source: "World Bank Atlas, 1982", in S. Robock and K. Simmonds International Business and multinational enterprises. op. cit., tables (14-1) and (14-2), pp. 305-312.

look at the structure of a given country's GDP (i.e. GDP supply), or for an exporting company it may be important to investigate the trends and the type of a country's imports and exports.

(B) Inflation growth rate: Table (B-16) shows the percentages of changes in consumer prices in the Middle East over 1978-1983.^(*) i.e. the annual inflation growth rate which may influence decisions and marketing aspects (eg. pricing policy, capital and profits movements, production costs, etc). of a Mnc concerned.

In the light of table (B-15) and (B-16) the following points can be derived:

changes in consumer prices are associated with the level of GNP per capita i.e. almost all countries which enjoy high GNP per capita, they also enjoy low changes in consumer prices. This situation tends to be the same in most of the developed nations. According to the Economist, March 23, 1985 the annual change rate of consumer prices in all developed nations was between 2.3% in the case of Holland and 8.7% in Sweden (also wholesale price inflation is still under control in most of the developed nations which enjoy high per capita GNP which influence the percentage of changes in consumer prices)⁽¹¹⁷⁾.

. It is clear also that countries such as Israel, Iran, Syria for example have suffered from a high inflation growth rate. This may be associated with the Gulf War

(*) Table (B-16) follows on next page.

Table (B-16) - Changes % in consumer prices of the Middle Eastern Countries 1978/83

	1978	1979	1980	1981	1982	1983	1978-82* %	1979-83* %
Algeria	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bahrain	15.7	2.2	3.8	11.3	8.9	n.a.	8.3	n.a.
Egypt ^(°)	n.a.	9.9	20.6	10.4	14.9	16.1	n.a.	14.3
Emirates, U.A.	20e	20e	15e	+7-9e	+11-14e	n.a.	+15e	n.a.
Iran ^(°)	11.8	10.5	20.6	24.2	18.2	n.a.	n.a.	18.4
Iraq ^(°)	+4.6	+10.7	+16.1	+19.8	+13.4	n.a.	n.a.	n.a.
Israel ^(°)	n.a.	78	131	117	120	145	n.a.	93.7
Jordan	n.a.	14.3	11.0	7.7	7.4	5.0	n.a.	9.0
Kuwait ^(°)	+8.7	+7.1	+6.9	+7.3	+7.8	n.a.	+7.6	n.a.
Libya ^(°)	29.6	-5.4	3.5	4.0	6.0e	n.a.	6.9	n.a.
Lebanon	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Morocco	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Oman	na.	na.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Qatar	15.0	14.0	6.8	8.5	4.4	n.a.	9.7	n.a.
Saudi Arabia ^(°)	n.a.	+1.8	+3.7	+2.7	+1.1	1.0	n.a.	+2.0
Sudan ^(°)	19.2	31.3	25.3	24.6	25.7	n.a.	25.2	n.a.
Syria ^(°)	5.0	4.8	18.9	18.4	14.3	n.a.	n.a.	12.1
Tunisia ^(°)	n.a.	7.8	10.0	8.9	13.7	9.0	n.a.	9.9
Yeman, A.R. of	n.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yeman, P.D.R.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

(*) per annum.

e = estimate, (°) on average

Source: Compiled by the researcher from Lloyds Bank Group Economics Reports concerning each country covered, 1984, fact sheets, p.1.

between Iraq and Iran, Israeli's invasion of Lebanon etc. Particulary as to the latter case, a striking record of inflation growth rate, ie. 400% has been realised in Israel by the end of 1984⁽¹¹⁸⁾. Sudan has also been hit by the draught which started in Africa by the early 1980's^(*).

A major problem, therefore whcih may face foreign companies in this region seems to be the high and continuous inflation growth rates which may influence most of marketing decisions concerning particularly consumer goods.

(C) Sectoral shares of GDP

As table (B-17) illustrates GDP shares varied from one country to another.⁽⁺⁾ For some countries, oil represents the main source of their GDP, for others agriculture and services sectors accounted for an enormous percentage of their GDP supply. Perhpas the most interesting contributions of the preceding table lie in columns no. (2) and no. (7). They provide not only the opportunities potential for a Mnc concerned but also provide one way to gauge the level of technologoy/material culture and level of economic development of each individual country. In this respect, Gladwin⁽¹¹⁹⁾, has argued that when agriculture generally accounts for a greater share and manufacturing a lesser share of a country's GDP, one can roughly predict the kind of technology and material culture found in the society. ie. agricultural versus industrial tools, implements, machines,infrastructures,etc.

* Some political consideration associated with these issues will be highlighted later.

+ Next page.

Table (B-17) - GDP supply in Middle East (Percentages)

	(1) Year	(2) Agriculture & Fishing etc.	(3) Extractive Industry mainly oil and gas	(4) Manufacturing other industry & Mining	(5) Construction	(6) Wholesale & finance trade, tourism	(7) Others including transport and services taxes, etc.
Algeria	-	12.0	n.a.	n.a.	n.a.	n.a.	n.a.
Bahrain	1982	1.0	25.5	21.5*	14.2	26.8	11.0
Egypt	1981/82	19.8	15.0	14.2*	4.7	19.5	26.8
Emirates,UA	1980	1.0	73.0	4.0	-	-	22.0
Iran	1982/83	15.5	18.9	17.2	-	-	48.2
Iraq	1979	8.0	67.0	6.0	-	-	19.0
Israel	1984	5.8	-	40.1	-	-	54.1
Jordan	1983	6.6	-	17.3	12.1	15.7	48.3
Kuwait	1982	-	48.0	7.0	-	-	45.0
Libya	1982	2.1	53.6	4.1	11.3	-	28.9
Lebanon	-	11.0	n.a.	16.0	n.a.	n.a.	n.a.
Morocco	-	31.0	n.a.	13.0	n.a.	n.a.	n.a.
Oman ⁽¹⁾	1971	11.6	71.0	4.6	4.3	16.2	32.5
Qatar	1982	0.5	66.2	4.1	7.6	12.1	9.5
S.Arabia	1982/83	2.0	50.0	3.0	13.0	-	22.0
Sudan	1981/82	36.6	-	13.7	-	-	49.6
Syria	1981	18.1	-	29.4	-	-	52.5
Tunisia	1983	12.6	11.9	11.9	7.2	31.1(+)	25.2
Yemen,AR ⁽²⁾	1974	63.4	0.5	2.3*	3.0	14.6	15.1
Yemen,PDR ⁽²⁾	1970	19.4	0	26.9*	0.7	12.7	40.4

(*) Included electricity, (+) included transportation, - (*) excluding mining.

(1) UN, "monthly bulletin of Statistics", in R. Wilson. The Economies of the Middle East. London: The MacMillan Ltd., 1979, p.179, (2) Ibid, p. 179.

Source: Compiled by the researcher on the basis of Lloyds Bank Groups Economic Reports, 1984, Loc. cit., and R.A. Ajami, Arab Response to the Multinationals. New York: Praeger, 1979. pp. 98-99.

Additionally, the distribution of a country's labour force among productive sectors will generally correlate closely with the relative contribution of those sectors to GDP. Urbanisation level (as labour shifts from primary sectors to the secondary one (ie. agricultural activities to manufacturing and mining) etc, can often be predicted⁽¹²⁰⁾.

In sum, as one would expect - with everything static - a decision for entry to establish a manufacturing plant in a country such as Yeman, A.R. where the agricultural activities dominate a greater share of GDP may be influenced by the availability of a skilled labour force compared with another country e.g. Israel for example. By contrast, the former may provide a relatively promising market potential for a Mnc whose activities lie in this area i.e. in agriculture rather than the latter. In other words, several possibilities for explaining the influence of the previous characteristics of GDP structure of the Middle East upon FDI and associated marketing obstacles can be predicted as will be partly demonstrated later.

D. Exports - Imports

As argued earlier, a Mnc, a trading firm's market potential can often be predicted through scanning the host country's imports/exports shares. In this connection, Table (B-18) shows the structure and percentages of exports and imports, as well as the major suppliers and customers of the Middle Eastern countries. These are in addition to the relation of exports and imports to the GDP in each country.

Table (B-10) Exports-Imports and their relations to GDP, major suppliers and customers of the Middle East⁽¹⁾

Country	Year	Major Exported Goods			Exports ^(*) in relation to GDP demand %	Customers by major destination	Major Imported Goods			Suppliers by major destin.
		Petroleum (crude & refined oil)	Agricultural Products	Manufactured Goods & related Minerals/Chemicals			Machinery Transport Equipment Manufact. Goods & Related Products	Foodstuffs livestock related products & consumer goods	Imports in relation to GDP Demand%	
Algeria	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bahrain	1982	83.0	-	8.5	96.2	W.Eur/Hong Kong & S.A.	82.2	-	-82.3	W.Eur.
Egypt	1982	67.2	13.1	-	28.5	W.Europe	28.4	24.5	-37.1	W.Eur.
Emirates	1982	91.8	-	-	78.0	W.Eur & Mid East	53.5	45.3	34	W.Eur.
Iran	1983	97.8	-	-	12.1	W.Europe*	54.5	24.5	18.0	W.Eur
Iraq	1983	98.6	-	-	63.0	W.Europe & Brazil	n.a.	n.a.	37.0	W.Eur1982
Israel	1982	-	11.0	70.0	41.1	W. Europe	36.5 ^(o)	10.5	-61.4	W.Eur.
Jordan	1982	-	22.7	74.3	34.0	W.Europe Arab.Coun.	49.0 ^(xx)	16.0	-98.6	W.E.&S.A
Kuwait	1981	88.0	-	11.0	59.0	S.E.Asia & W. Eur.	83.0	17.0	53.0	W.Eur.
Lebanon	n.a.	-	-	-	-	-	-	-	-	-
Libya	1983	99.0	-	-	54.3	W.Europe	79.5	13.0	38.4	W.Eur.
Morocco	n.a.	-	-	-	-	-	-	-	-	-
Oman	-	(xx)	-	-	n.a.	W.Europe	(xx)	-	n.a.	W.Eur
Qatar	1983	94.0	-	-	78.5	W.Europe	76.3	12.7	-18.9	W.Eur.
S.Arabia	1982	99.0	-	-	54.0	W.Europe	63	6	-45	W.Eur.
Sudan	1982	-	63.2	-	9.7	W.Europe & Arab.Coun.	78.0 ^(o)	-	-13.7	W.E.&S.A
Syria	1982	51.3	11.7	6.1	13.4	W.Europe & S.Arabia	53.5 ^(xx)	6.8	-23.2	Mid.East
Tunisia:	1983	44.7	-	36.1	35.4	W. Europe	50.0 ^(xx)	-	-44.7	W.Eur.
Yemen,AR	n.a.	—	-	-	-	-	-	-	-	-
Yemen,PDR	n.a.	—	-	-	-	-	-	-	-	-

(+) Percentage basically related to 1980, 1981 1982 and 1983 except the case of Iraq where % relates to 1979.

(*) Including Japan & U.S.A.. (xx) Mainly percentage not available. (o) including petroleum & fuels.

Source: Compiled by the researcher on the basis of Lloyds Bank Economic Reports, 1984, loc.cit.

As one would notice, there is a tight relationship between a country's major GDP source and the type and shares of both exports and imports of that country (see table B-18). While export of oil mainly accounts for a greater share (44.7-99%) of total exported goods from most of the Middle Eastern countries except Israel, it is also clear that machinery, transport equipment and other manufactured and capital goods represent generally a greater share of imported goods of the Middle East. More specifically, the characteristics of the Middle East according to the above table can be summed up as follows:

1. About 55% of Middle Eastern countries are oil exporting countries.
2. Israel, Jordan and Tunisia are the main exporters of manufactured goods.
3. Sudan is the main agri-exporter country.
4. Over 60% of the Middle Eastern countries import manufactured goods, machinery, transportation equipment, capital goods, etc.
5. Food stuffs and livestocks and other related products account for a relatively large proportion of imported goods in the case of Emirates, U.A., Egypt and Iran.
6. It is also clear that the percentage of imports fell markedly in relation to GDP demand in most countries.
7. Western Europe represents the major trade partner with the Middle East.

E. Fixed investment consumption and capital formation in relation to GDP demand percentage

In their relation to GDP demand both fixed investment and capital formation compared with private and government consumption are noticeably low in most countries in the Middle East as shown in table (B-19).^(*) This in turn reflects - as demonstrated earlier - one of the most important reasons behind the gap of development between developed and developing nations. i.e. Low capital formation and investment produce low development growth rates in a given country. Nevertheless, as shown in the following graph (B-1), there is a tangible increase in gross domestic investment in the Middle East which is obviously higher than other developing countries in general.

(2) Demographic Factors: in assessing foreign markets, population size, population growth rate, and the surface area of a country will be among the important considerations for the firms concerned. In this connection, it has been argued that although population figures in themselves are not usually a sufficient guide to market size, nevertheless, the consumption of many products is correlated with population figures, e.g. some food products, health care items, educational supplies, etc - for these types of products, population size may be a very useful indicator of market potential⁽¹²¹⁾. Having accepted this argument, it seems also possible that the growth of market potential for such products may be correlated to rate of population annual increase.

(*) Table (B-19) follows on next page.

Table (B-19) Fixed investment, consumption and capital formation: % of GDP demand in the Middle East

	Year	Fixed Investment	Capital Formation	Consumption Private	Govt.
Algeria	-	n.a.	n.a.	n.a.	n.a.
Bahrain	1981	n.a.	27.6	47.4 ^o	-
Egypt	1982/83	23.8	n.a.	68.3	16.9
Emireates, UA	1980	28.0	n.a.	17.0	11.0
Iran	1981/82	21.0	n.a.	54.0	23.0
Iraq	1979	33.0	n.a.	41 ^o	-
Israel	1982	23.1	n.a.	63.6	33.6
Jordan	1983	39.7	n.a.	90.6	25.5
Kuwait	1982	21.0	n.a.	50.0	20
Lebanon ⁽²⁾	1972	n.a.	24.8	84.1	9.0
Libya	1981	30.0	n.a.	25.3	27.6
Morocco	-	n.a.	n.a.	n.a.	n.a.
Oman	-	n.a.	n.a.	n.a.	n.a.
Qatar	1981	n.a.	15.6	14.4	n.a.
Saudi Arabia	1983	28.0	-	33.0	27.0
Sudan	1980	10.4	-	80.1	12.5
Syria	1982	n.a.	22.8	66.3	20.7
Tunisia	1983	29.8	n.a.	62.9	16.9
Yemen, A.R. ⁽²⁾	1973	n.a.	10.4	96.7	00
Yemen, P.D.R.	-	n.a.	n.a.	n.a.	n.a.

(^o) Private and government groups .

Source: Compiled from Lloyds Bank Group Economic Reports. Loc. Cit., and R. Wilson. The Economies of the Middle East. op.cit., p. 180.

In the meantime, Wilson⁽¹²²⁾, has argued that population growth leads to an expansion in the labour force and this can have a positive effect from the point of view of output growth. Undoubtedly population size and its growth do not necessarily contribute to the growth of labour force where the need to educate people is also of fundamental importance. Distribution of population size by e.g. age, sex, education, etc. is also important to Mncs which manufacture in a host country. As to the surface area of a country, the international marketer investigates maps showing the physical size of a country the transportation situation and other related topographical characteristics in order to anticipate for example marketing and logistical, dsitribution problems, etc⁽¹²³⁾.

Accordingly, table (B-20) shows some demographic characteristics of the Middle East e.g. area, population size and growth rate, density of population (supplementary data concerning other developing countries is also provided^(*)).

Briefly, from table (B-20), it may be established that the average rate of population growth in the Middle East is greater than the developing countries examined although the latter are obviously overpopulated compared with their counterparts of the Middle East. Having considered the argument demonstrated earlier it seems arguably clear that the Middle East represents a promising market potential for the Mncs concerned.

Eventually, to underline the importance of the Middle Eastern market based on the preceding information and data,

(*) Table (B-20) follows on next page

Table (B-20) - Demographic Characteristics of the Middle East and other developing countries

Middle East						Other Developing Countries			
Country	Population Year	Size (Millions)	Population Growth Rate Year	%	Area (sq. metre unless mentioned)	Density of Population (per sq.km)	Country	Population Size (mill.)	% growth rate (1970-79)
Algeria	1980	18.9	1970/79	3.4	n.a.	n.a.	Chile	11.1	1.7
Bahrain	1982	0.359	1973/82	4.1	231	411	Pakistan	82.2	3.1
Egypt	1982	44.67	1977/82	2.9	386,900	37	Malaysia	13.4	2.3
Emirates,UA	1983	1.2	1970/81	16.6	30,000	3	Hong Kong	5.1	2.6
Iran	1983	41.64	1973/83	3.2	636,000	20	Peru	3.3	2.7
Iraq	1982 _e	14.0	1978/82	3.1	169,240	26	Singapore	2.4	1.4
Israel	1982	4.02	1971/81	2.2	7,848*	162	Kenya	28.3	3.5
Jordan	1982	3.13	1978/82	3.6	37,738	28	Zimbabwe	7.2	3.1
Kuwait	1982	1.56	1978/82	6.7	6,880	56	Nigeria	84.7	2.5
Lebanon	1980	2.7	1970/79	-1.0	104,000(Km)	276	Ecuador	8.4	3.3
Libya	1982	3.2	1973/82	4.1	679,358	n.a.	Philippines	47.9	2.7
Morocco	1980	20.2	1970/79	3.0	n.a.	n.a.	Uganda	13.2	3.0
Oman	1981 _e	0.92	1970/75	3.1	300,000(Km)	4	Tanzania	18.1	3.4
Qatar	1982 _e	0.260	1978/82	5.4	4,402	8	Angola	7.1	2.4
S.Arabia	1983 _e	10.0	1973/83	4.3	830,000	4	Chad	4.5	2.0
Sudan	1982	19.5	1972/82	2.8	967,500	7	Mexico	67.5	3.0
Syria	1982 _e	9.66	1971/81	3.5	72,234	40	Ethiopia	3.1	2.2
Tunisia	1982 _e	6.78	1973/82	2.5	63,170		Guatemala	7.0	2.9
Yemen,A.R.	1980	5.8	1970/79	1.0	195,000(Km)	34	S. Leone	3.5	2.6
Yemen,PDR	1980	1.9	1970/79	2.4	333,000(Km)	5	Sri Lanka	14.8	1.7
Average **	-	10.5	-	3.9	-	-	-	21.64	2.60

* Excluding the administered territories. ** difference in time span is neglected.

Source: Compiled from World Bank Atlas, 1982, Loc. cit., Lloyds Bank Groups Economic Reports, Loc. Cit., and R. Wilson, The Economics of the Middle East, op.cit., Table B-1, p. 177.

it may be useful before forming any conclusion to present a summarised profile of the Middle East worldwide as shown in table (B-21) and graph (B-1)^(*). Based on table (B-21) and graph (B-1) and taking into account the previous discussion, the following points might emerge:

- A. The Middle Eastern markets are likely to keep their particularities in the future. There are several characteristics which are commonly shared by the Middle Eastern markets and different from other developing countries in terms of e.g. GNP, GNP per capita, population size and growth rate, output growth rate, etc.
- B. The Middle Eastern markets compared with the other developing ones are booming ie. they provide a relatively promising market potential for the Mncs concerned (despite the differences that exist among the Middle Eastern countries themselves). A relatively high growth rate in industrial and other economic activities, trade, population, domestic investment, etc. are evidence in this respect.
- C. There is a great reliance on imported manufactured goods, capital goods and technology.
- D. Western Europe particularly and the Far East in general are the major leading partners with almost all the Middle Eastern countries.
- E. Some problems are likely to affect Mncs which may manufacture in some Middle Eastern countries. High

(*) See next page for Table B-21.

Table (D-21) - Profile of the Middle East: Economic and Demographic Factors.

	Whole Middle East (1)	Developing Countries (2)	Developed Countries (3)	Whole World (2+3)
(A) Population (in millions) mid 1979	210.399	3,244.5	1,074.2	4318.7
(B) Average rate of growth of population (%)	3.9	n.a.	n.a.	2.13
(C) Average per capita GNP - 1979	\$ 3,656	\$ 597	6,498	7,065
(D) GNP at market prices (\$ millions): 1980	525,320	n.a.	n.a.	n.a.
1983	n.a.	n.a.	n.a.	\$ 13.3 Tr.
(E) Average inflation growth rate (%) 1978-83	11.6-17.8	n.a.	n.a.	n.a.
(F) Oil production (million metric tons) - 1977	1106.0	n.a.	n.a.	3025.1
(G) Share of free oil reserves (%) - 1977	75	-	-	25
(H) Trade:-		Developing oil export countries	Industrial Countries	Whole world
H-1-Exports (\$ billion) - 1983	15.20*	174.95	1,140.5	1661.6
H-2-Imports (\$ billion) - 1983	36.08*	141.12	1,201.1	1732.2
H-3-Exports 1981- Middle East (\$ bn.)	210.099	(Excluding two Republics of Yemen,)		
H-4-Imports 1981- Middle East (\$ bn.)	133.39	(Algeria, Morocco, Lebanon.)		
H-5-Trade Balance 1981 (\$ bn.)	76.709			
H-6-Leading Communities in foreign trade:				
- Exports		Oil, agri-products (e.g. cotton) minerals and chemical		
- Imports		manufactured goods, machinery & capital goods, foodstuffs		
H-7 Leading Trading partners:-				
- Customers		Western Europe and Far East.		
- Suppliers		Western Europe and Far East.		

(*) Includes only: Bahrain, Egypt, Israel, Jordan, Lebanon, Yemen A.R. and Syria.

Source: (A) Tables (B-13) and (B-20).

(B) Table (B-20), figure concerning the whole world is calculated from: World Bank Atlas, 1982, Loc. Cit..

(C) Tables (B-15) and (B-13).

(D) 1980 based on table (B-15), while the future of the whole world in 1983 from The Economist, March 23, 1985, p. 99.

(E) Approximately estimated from Table (B-16) because the absence and unsystematically reported data.

(F) R. Wilson, The Economist of the Middle East, op.cit., Table B-6, p.182.

(B) Hold only by Bahrain, Kuwait, Iraq, Iran, Oman, Qatar and Saudi Arabia, reported by W. Keegan. Multinational marketing management, op.cit., p. 132.

(H-1 and H-2) IMF. International financial statistics, Feb. 1985, vol. XXXVIII No.2, pp. 70-71.

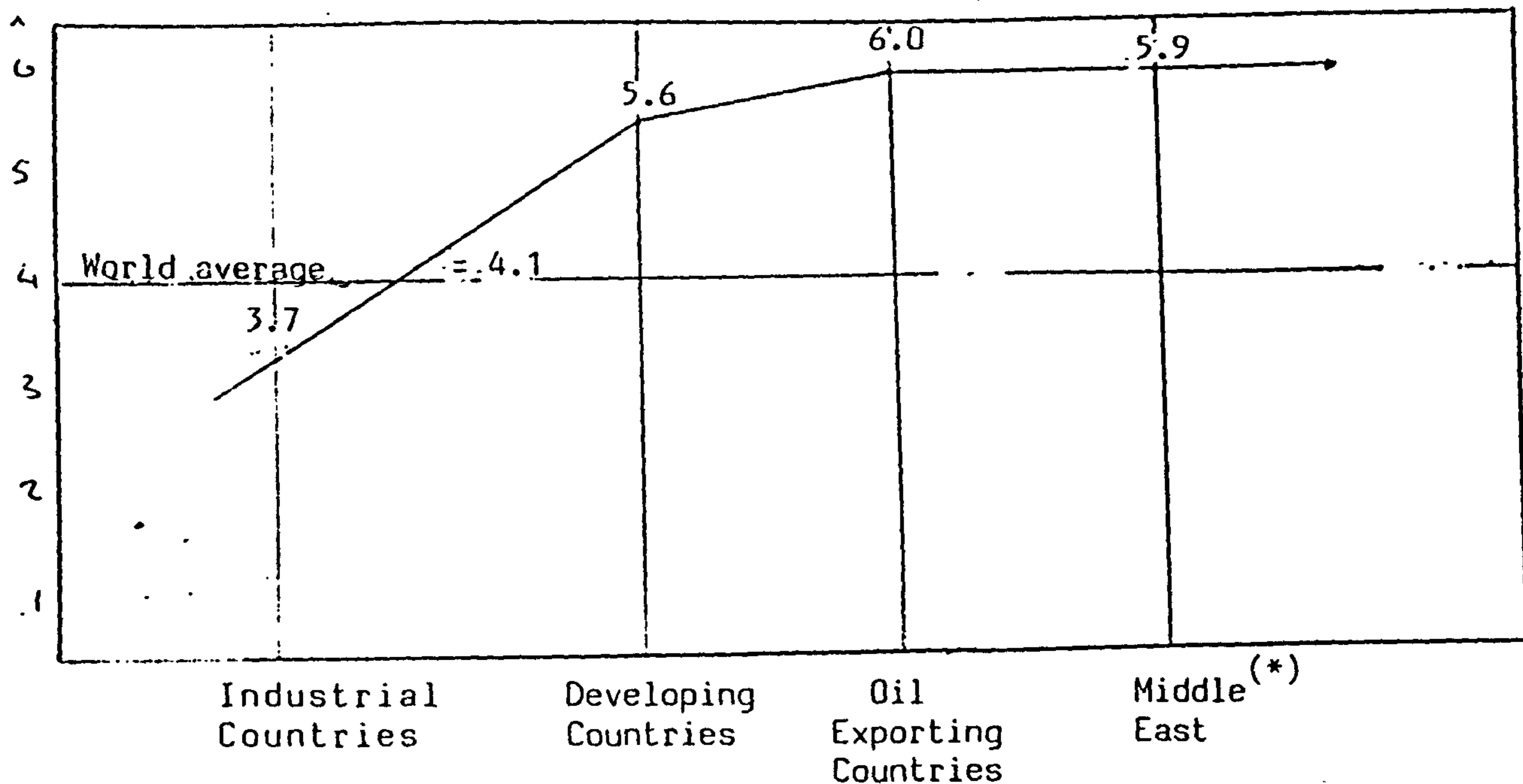
(H-3, H-4) Lloyds Bank Group Economic Reports 1984, Loc. Cit..

(H-5) calculated: H-3 minus H-4.

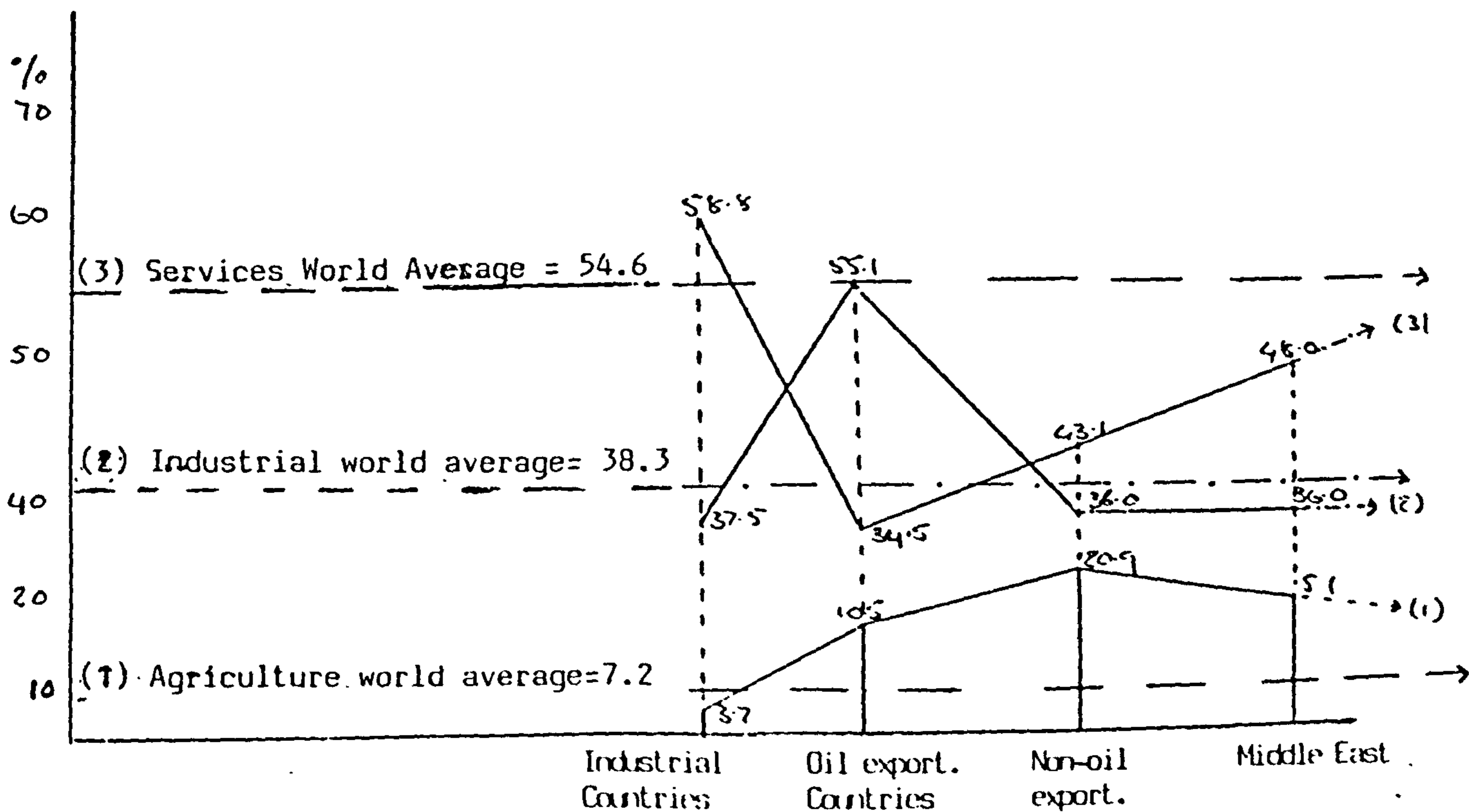
(H-6 and H-7) Based on Table B-18.

Graph (B-1) Comparative rate of growth of output, sectoral value added and changes in gross domestic investment 1963-1982.

I. Annual average changes in output 1963/82



II. Sectoral value added as % of GDP at factor price 1963-81



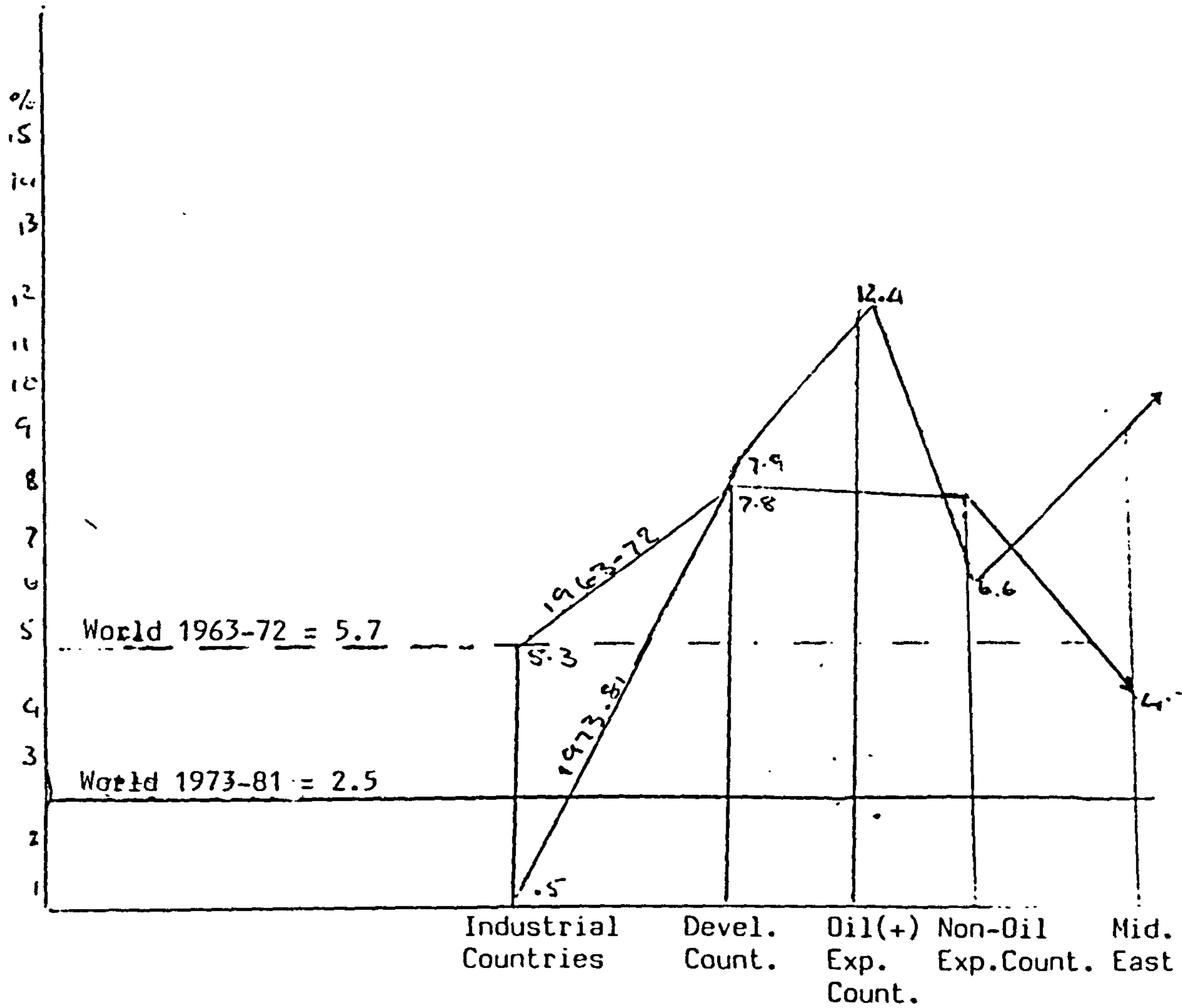
(+) Data on 1963-72 not avail.

(*) Includes only Bahrain, Egypt, Israel, Jordan, Lebanon, Syria and Yemen A.R.

Source: Constructed by the researcher on the basis of: IMF International financial statistics, 1984, no.8, tables (1), (4) and (5), p.1X,

Graph (B-1) (Continued)

III. Changes in gross domestic investment 1963-81.



inflation growth rate in Israel primitive economic activities in Sudan and Yemen A.R. for example.

Low capital formation and investment growth rate and so forth will probably hinder the efforts of a Mnc concerned to apply the latest techniques in production and marketing, to transfer goods, funds, pricing, etc.

(3) Cultural-Political factors

In general, it could be argued that country's specific cultural and political factors are important to Mncs/FDI decision-making in several ways. They may for example affect decisions which relate to product policies, promotion and distribution and marketing research activities, etc. Also, the introduction of a certain level of technology and the type of ownership in investment venture allowed in a given country can to some extent be influenced and determined by cultural and political considerations. In this respect, it is proposed firstly to shed light upon the salient cultural and political factors in the Middle East and the associated marketing, personnel problems, etc. Afterwards, some empirical evidences will be pointed out to illustrate the extent to which cultural and political factors can influence FDI decision and other related marketing, managerial aspects, etc.

(A) Language and Religion

To some extent each nation tends to have a unique linguistics and religious profile which differs in varying degrees from another nation. Also, it is possible to find

some differences in language and religion in different regions or communities in the same country. In India, for example, there are six religions, 15 major and 38 minor languages all linked with other cultural dimensions⁽¹²⁴⁾. In sum, scholars and practitioners have argued that as long as the differences among nations in language and religion may affect many marketing aspects e.g. vending some products, advertising etc. the question of linguistics and religious divergences remains important to a Mncs⁽¹⁴⁵⁾⁽¹²⁶⁾.

While linguistics and religious differences are likely to exist everywhere, either between or within nations, the Middle East situation provides an outstanding example of linguistics and religious convergence. About 18 countries out of 20 speak the same language while with exception of the Jewish and Christian Communities all of the Middle Eastern nations are Muslim. Table (B-22) illustrates language and religion profile of the Middle East.

Table B-22 Profile of the Middle East : Language and Religion

Language and Religion	% of Population	Country
(1) Language:		
- All Middle Eastern nations:	100	
of which: a. Arabic Speaking	79.0	All the Ara Countries
b. Hebrew	0.02	Israel
c. Persian	0.19	Iran
(2) Religion: ⁽²⁾		
All Middle Eastern nations:	100	
of which: a. Islamic religion	95.0	
b. Jewish and Christian	5.0	

Source: (1) Percentages calculated on the basis of table (B-20) and the official language of each country.
 (2) Compiled from W. Keegan, Multinational marketing management, op.cit., p. 132.

Broadly speaking, despite the apparent high degree of homogeneity between the Middle Eastern countries, it could be argued that heterogeneity exists to some degree among themselves 21% of total population are not Arabic speaking for example, but the most outstanding differences appear to be between the Middle Eastern countries and the Western developed nations in terms of religion and language, and this in turn may create the problems associated with those aspects of marketing which are culturally sensitive as will be demonstrated later.

(B) Education and Mass Media Availability:

In this respect, it could be argued that low literacy level combined with the low number of radio, TV and other mass media in a given host market may have great influence on many marketing and operational aspects of Mncs. Shortage of skilled manpower required, obstacles in advertising and promoting products, inadequate or non-existent marketing research, low productivity due to the use of unskilled labour or very costly manufacturing and marketing operations because of the limited available number of professional employees etc. are probably a natural product of operating in circumstances of the above kind.

In this connection, it may be argued that because of the existence of the wide gap between developing markets and the developed ones in terms of literacy level and mass media availability, a Mnc which operates in the former is

presumably very much open to most of the previous problems contrary to the case of operating in the developed markets.

While the Middle East situation is typical of many developing nations which are characterised by low literacy level and low per capita expenditure on education as demonstrated in table (B-13), it is possible that Mncs operating in the Middle East might face several of the previously-stated obstacles. As an additional illustration on the gap which exists between the Middle East situation and the developed countries the following tables (B-23) and (B-24) can be employed as useful examples which may demonstrate not only the availability and possibility of mass media coverage in the Middle East compared with selected European countries but also the gap which exists between them in terms of the prospects of educated people/manpower. Based on these tables, it may be established, however, that there are relatively great differences between the Middle East and Europe.

Table (B-23) Public expenditure on Education in the M.East & Europe 1978.

	Middle East	Europe
Average public expenditure on education at current prices:		
(1) - As percentage of GNP	4.24% ⁽⁺⁾	5.54% ⁽⁺⁺⁾
(2) - As percentage of government expenditure	9.67 ^(*)	11.37 ^(**)

(+) Excluding the two Republic of Yemen, Iran, Iraq, Lebanon, Qatar & Emirates, U.A.

(++) Excluding Monaco, Iceland, Greece, Gibraltar, Germany Fed.R., San Marino, Poland.

(*) Represents only 11 countries

(**) Represents only 15 countries

Source: Computed and compiled from 1981 U.N. Statistical Yearbook, 1983, Table 62, pp. 399-409.

Table (B-24) - Mass Media in the Middle East and selected European Countries

Country	Number of Daily Newspapers 1979	Non-daily newspapers No.	Year	Cinemas No.	Year	Radio Rec. per 1000 inhab. 1979	T.V. Rec. per 1000 inhab. 1979	Country	No. of Daily N/Papers 1979	Non-daily newspapers No.	Year	Cinemas No.	Year	Radio Rec. per 1000 inhab. 1979	T.V. rec. per 1000 inhab. 1979
Algeria:	4	3	1977	330	1977	168	39	Austria	31	132	1977	526	1978	352	282
Bahrain	n.a.	n.a.	-	10	1974	342	257	Belgium	26	2	1979	550	1977	452	293
Egypt	9	19	1976	246	1975	132	32	Denmark	49	2	1978	442	1978	291	358
Emirate, UA	3	3	1977	74	1977	316	n.a.	Finland	62	245	1977	317	1978	525	316
Iran	24	n.a.	-	448	1975	n.a.	54	France	n.a.	694	1977	4513	1978	337	292
Iraq	5	n.a.	-	84	1977	157	47	Greece	116	871	1979	1500	1977	307	147
Israel	24	96	1978	214	1978	212	153	Ireland	7	54	1977	152	1978	371	223
Jordan	5	4	1977	41	1978	174	53	Italy	73	151	1978	10041	1978	240	231
Kuwait	n.a.	16	1979	10	1975	409	425	N.Lands	80	n.a.	-	484	1978	308	293
Lebanon	n.a.	n.a.	-	n.a.	-	n.a.	194	Spain	3	24	1977	5736	1978	258	253
Libya	3	5	1976	51	1978	46	56	Sweden	112	69	1977	1198	1978	na.	374
Morocco	9	31	1979	227	1977	108	39	Switz.	88	169	1977	501	1978	355	312
Qatar	1	7	1979	2	1975	476	-	U.K.	120	1092	1975	1579	1970	931	394
Oman	n.a.	n.a.	-	12	1976	n.a.	n.a.								
S. Arabia	12	1	1979	n.a.	-	37	38								
Sudan	3	n.a.	-	55	1978	74	n.a.								
Syria	6	8	1979	92	1978	n.a.	45								
Tunisia	5	13	1979	82	1977	n.a.	48								
Yemen AR	n.a.	n.a.	-	n.a.	-	18	0.2								
Yemem PDR	3	n.a.	-	n.a.	-	54	18								

Source: Compiled from: 1981 U.N. Statistical Yearbook, 1983, Tables 65, 66, 67, 68 and 69, pp. 422-444.

Thus, having accepted the assumption that close association exists between expenditure on education and the availability of skilled manpower, literacy level, usage of mass media, in advertising/promoting etc. and that a relationship may also exist between GNP per capita and the ownership of radio/tv etc. it is not surprising that the gap between the Middle East and European countries is a result of the accumulation of factors in development level between these countries. Therefore, the conclusion might be that the preceding argument concerning obstacles facing Mncs operation in the developing countries remain in the Middle Eastern markets perspective as well (quite apart from the extent to which such problems can exert influence on Mncs activities in these countries).

(C) Infrastructural facilities

In their argument of marketing infrastructure (which also relates to the preceding factors in mass media), Douglas and Craig⁽¹²⁷⁾, Michell⁽¹²⁸⁾, Keegan⁽¹²⁹⁾ among others have highlighted several problems that apply to Mncs, which manufacture in developing countries in general because of the lack of adequate infrastructural facilities there. In short, the feasibility or desirability of utilizing specific types of marketing research and so forth are dependent upon the availability and degree of development of the transportation networks and communication system in the host country i.e. deficiency in communications and transportation's net-

works will drastically limit the range of physical distribution, implementation and marketing research and in general the extent of the market potential for the Mnc concerned. Additionally, a comprehensive communications system is a prerequisite to breaking down the traditional high-cost market structure in LDCs, areas⁽¹³⁰⁾.

Regarding the situation in the Middle East, the above problems probably apply to a great extent to Mncs which operate in this region. Telecommunications and transportation networks in the Middle East are inadequate to meet the needs of Mnc as well as the economies of most Middle Eastern countries compared with the developed countries in general.

According to the following table (B-25), it is clear that most of Middle Eastern countries' density of telephones per 100 inhabitants and the number of passenger cars and commercial vehicles, for example, is significantly lower than that of the European countries. It should, however, be noted that many logistical/physical distribution, communication problems and so forth will continue to threaten Mncs effectiveness in the Middle Eastern markets.

(D) Urbanisation Level

It seems possible that the foregoing characteristics of the Middle Eastern markets may reveal the extent and pattern of urbanisation level which exists in these markets. As urbanisation can be viewed for example as a

Table (B-25) - Telephones, telegrams, passenger cars and commercial vehicles in the Middle East and selected European countries, 1980.

Middle East							European Countries						
Country	Telephones in use per 100 inhab.	Telegrams (thousands) Domestic	Foreign	Passenger cars in use	Commercial Vehicles in use	Year	Country	Telephones in use per 100 inhab.	Telegrams (thousands) Domestic	Foreign	Passenger Cars in use	Commercial Vehicles in use	Year
Algeria	2.5	2754	523	322.2.	n.a.	1976	Austria	40.1	1150	362	2247.0	526.1	1980
Bahrain	19.8	20	120	41.2	13.5	1978	Belgium	36.9	1325	430	3158.7	318.5	1980
Egypt	1.2	6686	937	432.4	130.0	1980	Denmark	64.1	377	216	1397.9	267.5	1980
Emirates, U.A.	20.1	n.a.	n.a.	n.a.	n.a.	-	Finland	49.6	668	129	1225.9	158.1	1980
Iran	3.2	n.a.	n.a.	932.7	204.0	1977	France	45.9	8558	2397	18400.0	2686.0	1980
Iraq	n.a.	n.a.	n.a.	170.1	86.1	1978	Greece	28.9	3759	580	863.4	420.0	1980
Israel	29.3	496	345	414.5	96.3	1980	Ireland	18.7	355	157	642.9	64.7	1978
Jordan	n.a.	n.a.	n.a.	89.7	34.8	1980	Italy	33.7	24051	2397	17686.2	1688.4	1980
Kuwait	15.9	n.a.	501	285.7	95.1	1980	Netherlands	50.9	n.a.	n.a.	4550.0	1688.4	1980
Lebanon	n.a.	n.a.	n.a.	220.2	23.4	1976	Spain	31.5	12631	658	7556.5	1380.9	1980
Libya	n.a.	n.a.	n.a.	63.1	131.3	1974	Sweden	79.6	163	279	2856.0	163.0	1978
Morocco	1.2	749	218	394.1	179.2	1975	Switzerland	72.7	892	821	2246.8	180.5	1980
Oman	2.5	6	118	7.7	5.5	1978	U.K.	47.7	3300	4259	14309.0	1798.0	1978
Qatar	23.2	n.a.	n.a.	n.a.	n.a.	-							
Saudi Arabia	5.3	n.a.	n.a.	152.5	167.4	1978							
Sudan	0.3	233	199	27.4	16.5	1970							
Syria	3.2	n.a.	n.a.	65.4	81.4	1978							
Tunisia	3.0	428	269	102.6	67.8	1975							
Yemen, A.R.	n.a.	n.a.	n.a.	n.a.	n.a.	-							
Yemen, P.D.R.	n.a.	n.a.	n.a.	11.9	10.5	1976							

Source: 1981 U.N. Statistical Yearbook, 1983, tables 187, 188 and 190, pp. 989-1011.

result of the industrial progress or in the light of other infrastructural facilities, etc. Most of the Middle Eastern markets can, however, be seen as less urbanised compared with the developed countries. For a Mnc concerned, the prevalent level of urbanisation in a given developing country, may affect many of its marketing strategies. Hill and Still⁽¹³¹⁾, for example, have demonstrated that: (1) modern products are distributed over less urbanised markets to less experienced consumers, more adaptations are needed, (2) the increase in packaging, protection adaptations made for products marketed outside of urban areas suggests that LDC semi-urban areas have inferior storage conditions, and more primitive distribution and handling facilities. Therefore, extra packaging protection is necessary and (3) there is less need to change product features for products targeted to LDC urban markets because of similarities in consumption patterns between LDC urban markets and markets in developed countries. Meanwhile, many transferred U.S./U.K. consumer products are launched initially in LDC urban markets, early adoptions being made to qualify the products for market entry.

(E) Role of Government

In differing degrees, all governments play important roles in the economy of their countries. Quite apart from the forces/reasons behind the intervention of governments in business cycles in general the roles played by the

governments are basically of two kinds: A participatory one through e.g. partnership with local or foreign firms or by exclusively possessing certain economic sectors enterprises. And a regulatory role e.g. governments plan and direct tax and regulate the economy as well as the regulations imposed through many fiscal and monetary policies^{(132),(133),(134)}.

In some Middle Eastern countries, government's ownership of business and servicing enterprises is high. Public sector's share in economic activities in these countries is obvious evidence of government's dominance over the entire economic aspects in their countries. As demonstrated earlier, the share of the public sector in total manufacturing investment in Algeria and Syria for instance accounts for over 80% in the late 1970's/early 1980's, contrary to this case, the share of the public sector in Tunisia was found to be from 40-60% while in Morocco it was between 25-40% during the same period covered⁽¹³⁵⁾.

As one would expect, if government has strong economic social power, it may impose a wide range of regulations restricting operations of both Mncs and the national private sector. Even if Mncs, are allowed to operate on the basis of 50-50% partnership (or above or below this share division) it is also possible that such a partnership will pose constraints on Mncs global activities in general. As one can see by studying the case of Egypt, not only the government dominates an enormous share as a dominant partner or totally possessing the

industrial enterprises - but also the public sector-trading firms dominates the wholesale and distribution operations (particularly those operations concerning the state owned enterprises' activities despite the liberalisation programme started in the early 1970's.

In Libya, not only does the government own 70% of its major oil operations, but also in accordance with Qaddafi's Islamic Socialism all the distribution and marketing facilities have been nationalised in order to gain full control over the oil firms operating in Libya⁽¹³⁶⁾.

Not only is subsidizing some of consumer products well known in some Middle Eastern countries, but also prices of many consumer goods are controlled strictly. In Iraq, for instance, prices are determined by the Central Committee of the Arab Ba'ath Socialist Party. There is no decentralisation of authority for pricing right down to enterprise's level. Pricing decisions in all manufacturing firms are made by four organisations: Trade Regulation Board, the Ministry of Industry, The Public Organisation and The Management of the Company⁽¹³⁷⁾.

The government of Iraq imposes fines or prison sentences on these merchants who neither post prices over the items nor sell the products at the suggested prices in order to force merchants to comply with the resale price maintenance laws. It is interesting to note also in this case that the procedure for price determination goes in a very long circular process which starts from

the firm, then up to the public organisation, then onto the pricing authorities in the Ministry of Industry and so to the Trade Regulation Board before it is finally back to the producing firms to apply these prices. Furthermore, The Trade Regulation Board reserves the right to cut prices if necessary⁽¹³⁸⁾.

In general, it could be argued that the problems which affect Mncs in the Middle East-on the basis of the foregoing features of this region - are numerous. On the one hand, an entry into some markets on the basis of 100% foreign ownership may be totally prohibited. Regardless of this method of entry into the Middle Eastern markets and despite any possible relaxation of control marketing control, the regulations imposed by governments will affect different elements of the marketing mix (expecially in areas such as pricing and distribution) on the other hand. In other words, as long as a Mnc's manoeuvrability is partially contingent upon its degree of commitment in a given market and partially too on the degree of the host government's intervention in the economic and social activities of its country, it is not surprising however, as illustrated in tables (B-7) and (B-9) for example to find out that most of Mncs are very much concerned with the restrictions imposed on ownership and other marketing production considerations in developing countries particularly.

(F) Management implications

Not only may an MNC be concerned with the availability of professional managers, but also it is important to consider the prevalent managerial values/styles and attitudes toward marketing when assessing overseas markets. In the Middle East perspective, it could be argued that the previous characteristics (economic and socio-cultural environmental factors) have exerted considerable influence on management process, availability of skilled managers and managerial values in general.

In the Iranian situation, Hajimirzatayeb⁽¹³⁹⁾ has pointed out that the cultural values emanating from a country's social system do influence both organisations structure and management approach. Managerial value systems in Iran keep indicating low trust in others, low assessment of employee commitment, lack of communication and the like. Furthermore, an authoritarian/traditionalistic culture like Iran's offers a low repertoire of options concerning modes of structuring and response to environmental and other contingencies⁽¹⁴⁰⁾.

In the case of Libya after the 1969 revolution Buera and Glueck's study⁽¹⁴¹⁾, demonstrates that management in Libya suffers from several problems such as: (1) inexperienced executive managers (most of the executives are new to their jobs where the median number of years in their position is only 2 years), (2) there is a lack of continuity in the careers of the managers, (3) Libya has no training

facilities to carry out the training programmes required and (4) sending managers abroad for training leaves a crucial job vacant when there is already a critical shortage of managers.

An added problem to management in Libya after the establishment of the People's Committee in 1973, the public sector lost some incentives to attract managers to it. Job security is one example. Moreover the removal of personnel (managerial as well as other) has become a very familiar and a very unregulated phenomenon. Eventually and perhaps most importantly, managers in the government sector seem to be confused as to what their authority and responsibilities are and perceive outside interference with their authority⁽¹⁴²⁾.

The hierarchy of authority in most of Middle Eastern organisations is designed to flow in a triangular fashion. More authority is vested toward the top while less is vested in the base of the triangle⁽¹⁴³⁾.

Above all, if they are to succeed, marketing control, training and recruitment, the reporting structure, operating practices used in selling function etc. must be adapted to the local culture in the Middle East⁽¹⁴⁴⁾. Attitudes towards doing business emphasise the importance of personal relationships. A study by Luqmain, et al⁽¹⁴⁵⁾, suggests that the fundamental Islamic concept of worship (five times a day) means that the foreign marketer has to take into account the variability and shift in prayer timings in planning sales calls, work schedules, business hours, etc.

Eventually, despite the seeming popularity of the marketing concept, it could be argued that the greater majority of Middle Eastern marketing managers have not yet adopted this philosophy. Partly, because most of the Middle Eastern economies are characterised by a "sellers market"; partly too because of the lack of freedom of the management of the firms as in the case of Iraq, for instance, where prices are determined by macro-managerial level, etc. Even in case of acknowledging the necessity and importance of adopting the marketing concept in some Middle Eastern countries e.g. Egypt, it has been demonstrated that the degree of freedom allowed by macro-management to public sectors firms in making their decision and marketing policies is an important factor in encouraging the adoption of marketing concept⁽¹⁴⁶⁾.

(G) Political aspects and attitudes towards FDI

On earlier occasions, it has been demonstrated that aspects of the political climate in developing countries are of great importance to Mncs (see for instance tables B-6/B-7). In this respect it may be useful - before outlining the Middle East situation - to point out that the assessment of the political situation in a given country includes several factors (economic, socio-cultural, etc). Other than those already highlighted. According to Kobrin⁽¹⁴⁷⁾ and Haner⁽¹⁴⁸⁾, among others, factors such as fractionalization by language and religious groups, social conditions

including extremes in population and GNP distribution, xenophobia and nationalism, price controls, civil war/disorder, labour disruptions, restrictive fiscal policies, dependence on a hostile major power, etc. are among those causes which may enhance political risk in a given country.

As to the application of the above factors to the Middle East, the situation may involve the following examples:-

1. In the light of table(B-22) it is clear that fractionalisation by language and religion does not exist in general. However, empirical studies and literature indicate that ethnic or religious groups do exist in countries such as Iran⁽¹⁴⁹⁾ and today in Lebanon.
2. Civil war in Lebanon and conflict/war between neighbouring countries still going on between Iran and Iraq. While the conflict between Israel, Syria and Lebanon still shows no sign of change despite the departure of Israeli troops from Lebanon which started in the early part of 1985.
3. On the basis of tables (B-15) and (B-16) low GNP per capita and the higher annual inflation growth rate have threatened political stability in some countries. The status quo in Sudan (April 1985) and the protests in Israel during 1984 (where the inflation rate reached 400% which is also expected to reach 1000% by the end of 1985)⁽¹⁵⁰⁾, provides evidence

which may to some degree confirm the relationship between the political stability and the prevalent economic conditions in a given country.

4. In accordance with (E), it would be established that there is a greater degree of inclination towards nationalisation rather than internationalisation in Middle Eastern countries, e.g. Libya, Iraq, Syria. Also as demonstrated earlier, the history of business shows that the Arab states were responsible for 27% of all U.S. expropriation between 1960-1976. (see also table B-26 concerning the attitudes of Arab elites towards Nationalism, FDI, etc^(*)). Furthermore, price control is also evident in the case Iraq.
5. In terms of the attitudes towards FDI in the Middle East, Ajami's survey⁽¹⁵¹⁾, of the Arab elites attitudes provides evidence to suggest that there is an overall positive view toward FDI and Mncs activities (89% of the total Arab elite surveyed expressing the opinion that Mncs activities are good, with 9% indicating neutrality and 2% an extremely negative view)⁽¹⁵²⁾. Meanwhile, there are some differences between the Kuwaiti and Iraqi elites in terms of orientation/attitudes towards nationalism, internationalism as well as Mncs. As shown in table (B-26), the Iraqi elite nationalism score was higher than the Kuwaiti particularly among the governmental Iraqis elite compared with the business and economic elites.

(*) See next page for table (B-26)

Table (B-26) - Arab elites attitudes towards nationalism, internationalism and foreign investment(*)

	Total elites	Total Bus/Eco. Elites (+)	Total Govt. Elites	Total Intell Elites	Kuwait			Iraq				
					Bus./Eco.	Gov.	Intell.	Total Eco.	Bus./Govt.	Intell.	Total	
Nationalism	1.61	1.67	1.51	1.63	1.73	1.31	1.69	1.57	1.60	1.79	1.55	1.65
Internationalism	2.46	1.8	2.9	2.7	1.67	2.25	2.09	2.07	1.95	3.31	3.32	2.86
Foreign investment	2.28	1.68	2.49	2.68	1.25	1.99	1.90	1.72	2.11	2.99	3.45	2.84

(*) Attitudes were examined/rated from 1 to 7 "score" of 1 indicates a high level of e.g. nationalism, while 7 indicates a low level.

(+) Bus = business, Gov = governmental, Intell = intellectuals and Eco = Economic

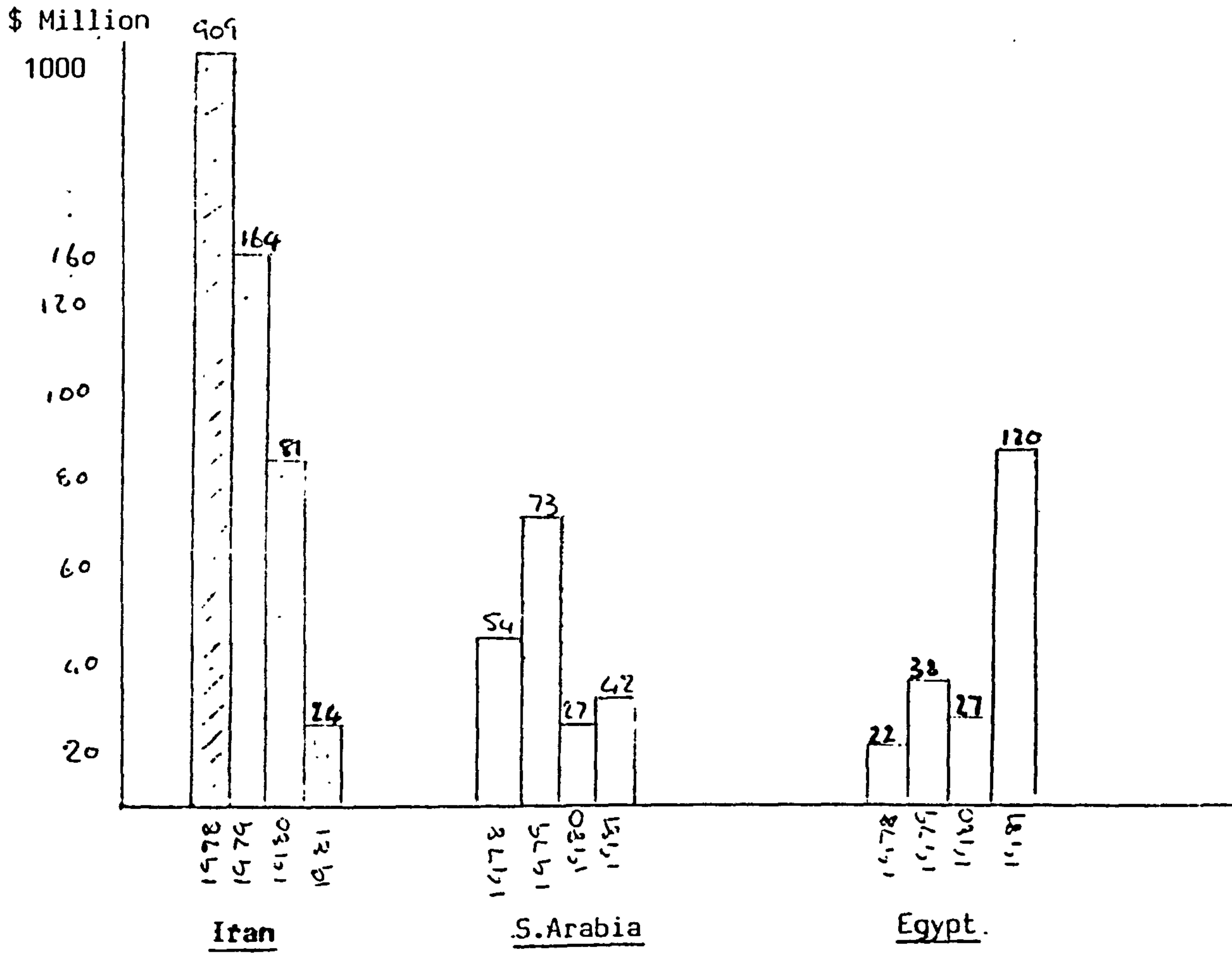
Source: Quoted from table (3-1), in R. Ajami, Arab response to the Multinationals, op.cit., p.69.

Additionally, while Arab elites are highly internationalistic and in favour of Mncs activities, there are also differences in orientation between the Kuwaiti and Iraqi elites. Among the former the most internationalistic were business and economic elites, followed by the intellectualls and governmental elites. As to the latter (i.e. Iraq) the same order also appeared among the Iraqi elites. Finally, the Kuwaiti economic and business elite was the most positive view towards Mnc, and the same view was held only by the Iraqi economic and business elite compared with the intellectualls and governmental elites.

6. Perhaps one of the most important indicators regarding the assessment of the political stability and attitudes towards FDI in a given country is to examine its record, inflow, and its growth rate or trend in that country. Thus according to the most available data published by OECD, graph (B-2) demonstrates the inflow of FDI allocated by the OECD countries to three Middle Eastern countries (namely Iran, Egypt and Saudi Arabia) from 1978 to 1981. (*) Interestingly to look at the trend of FDI inflow in relation to the prevalent political events during the period covered, the Iran case is likely to be particularly useful in this respect. As shown in graph (B-2) Iran recorded a drastic drop in its FDI

(*) See graph (B-2) on following page.

Graph (B-2) Net receipts of FDI by Iran, Saudi Arabia, and Egypt, 1978-81.



Source: Constructed on the basis of OECD, Investing in developing countries, 5th ed., Paris, 1983, Table 4, p. 23.

receipts from \$ 909 million in 1978 to \$ 64 million in 1979, then down to \$81 million in 1980 and fell enormously to \$24 in 1981. If one goes back to the period 1979-81, it will be found that the decrease of FDI inflow in Iran was coincident/ associated with two major political events, the first revolution of Ayatollah Khomeini, while the second is the Gulf War between Iraq and Iran.

As one would expect, the above events may to some degree influence the FDI inflow of some other Middle Eastern countries particularly the neighbouring ones, e.g. Saudi Arabia. According to OECD report, it is possible that the ongoing nationalisation of the foreign oil companies assets since the first oil price shock, though accompanied in many cases by production sharing and other compensation agreements - as happened in Nigeria in 1979 - have affected FDI inflow into Saudi Arabia and probably Egypt as well during 1980 (153).

Having accepted the assumed relationship between the growth of FDI and the political stability in a certain host country, it seems obvious that Iran is the most politically unstable state compared with Egypt and Saudi Arabia.

Eventually, it may be useful to conclude this section by presenting the following summary of empirical evidences regarding some issues influencing FDI and associated marketing activities in the Middle East.

1. Al-Muathen⁽¹⁵⁴⁾, in his study of marketing in the Iraqi situation he reported that:(a) the influence of religion on social life in Iraq is still great and sometimes one cannot differentiate between religion and social custom. Most of the people do not eat pork, or consume alcoholic drinks. Islam has a great deal of influence on people's attitudes and behaviour in the Arab world in general. (b) the attitude of Iraqi management toward advertising is that it is a waste of resources. (c) Iraq's physical distribution system has been neglected. There are no modern department stores nor speciality shops. This is in addition to the absence of adequate infrastructural facilities and communication networks. (d) trade association information do not exist in Iraq. Additionally, marketing efforts in Iraq are devoted particularly to product policies rather than sales, distribution, pricing and other marketing efforts⁽¹⁵⁵⁾. The overwhelming majority of firms surveyed (36 firms) depend on retail outlets as the major method of direct sale rather than sales offices⁽¹⁵⁶⁾. In the meantime most of the Iraqi salesmen have little education, and most firms have no really effective training programmes⁽¹⁵⁷⁾.

2. Elbashier and Nicholls⁽¹⁵⁸⁾, have examined the impact of cultural differences on Bmnc's export marketing in the Arab countries and Middle East in general.

The findings of this study provide evidence to suggest that:(a): regarding the question of language and personnel employment, some British firms did not regard linguistic differences as a major problem because the English language is regarded as the language of business in the Middle east. But firms of food manufacturing and health care product manufacturer did admit to minor difficulties in respect of translating brand names and slogans particularly.

(b) In every case, the entry into Middle Eastern/Arabic markets took place through local distributors who could provide additional valuable help in overcoming local problems concerning language and personal relationships.

(c) It was found also that similarities and dissimilarities in behaviour exist between Arabic and British consumers in terms of some products (see Exhibit B-2).

(d) There is a greater personal involvement of Arab businessmen in terms of conducting business. In other words, if the Arabic businessmen does not like you he is less inclined to do business with you. Meanwhile, contrary to the widely held views in the West, Arabic businessmen are shrewd and competent traders.

(e) The general picture of the Arabic consumer that emerge is that of a less sophisticated, less rational, highly price-oriented conservative consumer who is suspicious of frequent change and locally made products.

Exhibit (B-2) - Bmcs observations about Arabic Consumers

Brief Company Characteristics	Observations about Arabic Consumers
Subsidiary of large U.K. retail group	Wide variations between countries. Prefer foreign made goods.
Large U.K. pharmaceutical and consumer goods company.	Group shopping, buying decisions, influenced by other people. Buy larger packs for prestige and family size. Prefer foreign made goods. Despite generally held assumptions, women still make the buying decisions for most consumer goods.
Large U.K. tobacco company	Smoking habits similar to British. Women smoke less.
Large U.K. industrial and consumer goods company	Price is main concern. Little quality consciousness.
U.K. subsidiary of large U.S.A. Company producing a wide range of personal care products.	Shaving habits similar. Consumers are conservative/suspicious. More quality conscious than Africans. Prefer stronger fragrance in perfumes. Cosmetic tastes differ. Wide variations by country.
Subsidiary of USA large owned tyre company	Extremely price conscious. Impressed by product appearance rather than by functional attributes.
U.K. subsidiary of U.S.A. health care product manufacturer.	Less able to make reasoned choice. More emotional. Guided by prejudices and ideas from other people. Do not like change. Less aware of subtleties. Do not appreciate complicated ideas.
Large U.K. food manufacturer	Confectionery relatively a luxury.
U.K. subsidiary of U.S.A. pharmaceutical and health care products.	Differences in mentality, tastes and preferences. Colour appreciation differs. Prefer oral forms of drugs. Traditions limit the use of certain methods of contraception.
Large U.K. food manufacturer	Many aspects unclear. Eating habits very different from British.

Source: Adapted from A. Elbasher and J. Nicholls, Export Marketing in the Middle East, op. cit., p. 75.

(f) Employing Arab nationals in more senior marketing position has been considered an effective way of building up enduring business relationships with intermediary companies.

Finally, despite the higher degree of cultural convergences among the Arabic nations, exhibit (B-2) demonstrates some variations between Arabic consumers as reported by the Bmncs surveyed.

(3) Dunn⁽¹⁵⁹⁾, has confirmed the importance of personal relationships in doing business with the Middle Eastern businessmen and the participation of local partners. Dunn has found that: (A) local participation in the commercial sectors is required legally in Saudi Arabia, Kuwait, Emirates U.A., for example, because they fear foreign domination. Furthermore, the use of local partners provides knowledge of the market, powerful connection and logistical and service support, (B) Foreign companies in the state-regulated markets e.g Libya, Iraq, South Yemen, Syria and to some extent Egypt must sell direct to state-owned trading companies operating on very low margins, (C) In Saudi Arabia, agencies and distributorships are owned by established merchant families. Big merchant companies in this country control the import trade in addition to owning construction, transportation companies etc. and (d) government is often the ultimate consumer in the Middle East. It is not also uncommon for large projects to

materialise abruptly.

Eventually, interesting advice suggested by Dunn⁽¹⁶⁰⁾ on the basis of his survey can be summarised in a few words e.g. look for connections, be patient, develop warm personal relationships, etc.

(4) Arbose⁽¹⁶¹⁾, attributed the success of Japanese salesmen in Egypt for example to their appreciation of the local attitudes towards doing business. The Japanese, for instance, are more polite, patient, efficient, flexible, alert, neat and generous than their Western counterparts.

Finally, it has been argued earlier that the Egypt's export/trade has been affected in the late 1970's, early 1980's as a result of the Arab boycott associated with Camp David peace treaty in Israel. It seems also such a practice still has some significance. According to the Financial Times on May 19, 1983 it has been revealed that the long-running problem of the Arab boycott has surfaced again with "Solomon Brothers" the leading Wall Street investment bank. This bank has been put on the boycott blacklist and in consequence no Arabic bank investor (Syrian or Kuwaiti) will be allowed to have dealings with Solomon. This boycott as suggested might stem from a previous association with South African Mineral Co. and possible Jewish connections with Solomon.

Furthermore, as one would expect, in some Islamic countries interest taking (ie. Usury) is strictly prohibited according to the holy "Quoraan". God permitted selling

but charging usury is totally reprobated/restricted⁽¹⁶²⁾. Despite this condition, it is not surprising that one may find a huge number of foreign and national banks operating according to Western basis and working side by side with the Islamic based/organised banks in other countries like Egypt, Jordan, etc.

Broadly speaking, the preceding discussion/review of the Middle Eastern market has revealed that:

- (1) The Middle Eastern market - as stated earlier - seems to be a booming and rapidly growing one.
- (2) There are factors in economic, cultural and political environment have exerted a relatively significant influence on marketing development in this region. In other words, inadequate infrastructural facilities, inflation growth rate, lack of managerial and professional marketing managers, inadequate or absence of training programmes, lack of marketing research facilities, government control etc. are among the major problems which may face an incoming and existing Mncs which manufacture in the Middle Eastern markets
- (3) Despite the similarities which exist between the Middle Eastern markets there are also dissimilarities not only in terms of the degree of economic or socio-political development, but also in their orientation and attitudes towards the entire business affair and systems, nationalisation; internationalisation etc.
- (4) FDI is generally welcomed in the Middle East, but it is likely to be affected to some degree by the foregoing described characteristics of the Middle Eastern countries.

REFERENCES

1. S. H. Robock and K. Simmonds, International business and multinational enterprise; Illinois: Richard Irwin, 1983 3rd ed., p. 33.
2. B. Ohlin, "Inter-regional and international trade", mentioned by S.H. Robock and K. Simmonds, op.cit., p.35.
3. H.A. Zied, Marketing and Export Success, Ph.D. diss. University of Strathclyde, 1981, p.19.
4. W. Leontief. "Domestic production and foreign trade", in K. Kojima, Direct foreign investments, A Japanese model of multinational business operations, London: Croom Helm, 1978) pp. 42-43.
5. Ibid. p. 43.
6. S.H. Robock and K. Simmonds, International business and multinational enterprise, op.cit., pp. 39-40.
7. R. Vernon, "The location of economic activity", mentioned by S. Robock and K. Simmonds, Ibid., p.40.
8. N. Hood and S. Young, The economics of multinational enterprise, op.cit., pp. 45-46.
9. M. Z. Brooke and H.L. Remmers. The international Firm, London: Pitman Publishing Ltd. 1977 , pp.41-47.
10. N. Hood and S. Young, The economics of Multinational enterprise, loc.cit.
11. S.H. Robock and K. Simmonds, International business and multinational enterprise, op.cit. , p.41.
12. K. Kojima, Direct foreign investment, op.cit., p.59-60.

13. S.H. Hymer, "The international operation of national firms: A study of direct investment" in S.H. Robock and K. Simmonds, International business and multinational enterprise. op.cit., p. 42.
14. N.Hood and S. Young, The economics of multinational enterprise, op.cit., p. 47.
15. T.G. Parry. The multinational enterprise: international investment and host country impacts Greenwich: JAI Press Inc. 1980 , p. 29.
16. R.E. Caves. "International corporations: The international economics of foreign investment" in T.G. Parry, The multinational enterprise loc.cit.
17. N. Hood and S. Young, The economics of multinational enterprise, loc.cit.
18. Ibid., p.47.
19. T.G. Parry, The Multinational enterprise, op.cit.,p.30.
20. T. Horst, "The industrial composition of U.S. exports and subsidiary sales to the Canadian market" in T. Parry, The multinational enterprise, op.cit., pp. 30-31.
21. N. Hood and S. Young, The economics of multinational enterprise,loc. cit.
22. Ibid., pp. 48-49.
23. S. Lall. The multinational corporation, London: the MacMillan Press Ltd, 1980 , pp. 10-11.
24. J. Fayerweather. International business strategy and administration 2nd ed. Cambridge: Ballinger Publishing Co. 1982 , p.67.

25. N. Hood and S. Young, The economics of multinational enterprise. op.cit., pp.53-54.
26. S.H. Robock and K. Simmonds, International Business and Multinational enterprise, op.cit., p.44.
27. A.M. Rugman, Multinational In Canada: theory, performance and economic impact, Boston: Martinus N. Publishing 1980 , pp. 27-28, and pp. 35-36.
28. T.G. Parry, The multinational enterprise, op.cit., p.31.
29. S.P. Magee, "Information and multinational corporation: an appropriability theory of direct foreing investment", in T.G. Parry, The multinational enterprise, loc.cit.
30. N.Hood and S. Young, The Economics of Multinational enterprise, op.cit., p.56.
31. Ibid, p. 57.
32. Ibid., p. 57.
33. S. H. Robock and K. Simmonds, International Business and Multinational enterprise, op.cit., p. 45.
34. S. Onkvisit and J.J. Shaw. An examination of the international product life cycle and its application within marketing , Columbia Journal of World Business. Vol. XVIII, No.3, Fall 1983, pp. 73-79.
35. V. Terpstra, International Marketing 2nd. ed. Tokyo: Holt-Saunders Japan, Ltd. 1981), p. 29.
36. S. Onkvisit and J. Shaw., An examination of the international product life cycle and its application within marketing, op.cit., p .73.

37. N. Hood and S. Young, The economics of multinational enterprise op.cit., p. 61.
38. S. Onkvisit and J. Shaw, An examination of the international product life cycle and its application within marketing, op.cit., p.75.
39. Ibid., pp. 75-76.
40. I.H. Giddy, "The demise of the product cycle model in international business theory", in S. Robock and K. Simmonds, International business and multinational enterprise, op.cit., p. 46.
41. K. Kojima, Direct foreign investment, op.cit., p.62.
42. T.G. Parry, The multinational enterprise... op.cit., p.22.
43. J.H. Dunning, "The determinants of international production" in T.G. Parry The multinational enterprise, loc.cit.
44. OECD. International investment and multinational enterprises: investment incentives and disincentives and the international investment process, Paris, 1983, pp. 36-65.
45. S.H. Robock and K. Simmonds, International business and multinational enterprise, op.cit., pp. 50-56.
46. A. Rugman, Multinational in Canada, op.cit., p. 23.
47. The Egyptian-British Chamber of Commerce (EBCC), The Journal of the Egyptian-British Chamber of Commerce, September 1983, p.4.

48. Lloyds Bank Group Economic Reprot, 1984, (concerning the countries reported).
49. J. Stopförd, et al. The World Directory of multi-national enterprises, 1982/83.
50. S. Lall, The Multinational corporations, op.cit., pp.19-23.
51. N.Hood and S. Young, The economics of multinational enterprise, op.cit., pp. 72-75.
52. R.Z. Aliber, "A theory of direct foreign investment" in A. Rugman, multinational in Canada, op.cit., p.25.
53. Ibid, p. 25.
54. Ibid. p. 25.
55. R.E. Caves and G.L. Reuber, "Capital transfer and economic policy: Canada 1951-1962", ibid., p.24.
56. M.G. Porter, "Interest rate differentials interpreted as behaviour towards exchange rate of expectations" in Ibid., p. 24.
57. A.E. Scaperlanda "Foreign investment in Canada" in Ibid., p. 20.
58. N. Hood and S. Young, The economics of Multinational enterprise, op.cit., p. 77.
59. Y. Aharoni, "The foreign investment decisions process", in OECD, International investment and multinational enterprises: incentives and disincentives and the international investment process, op.cit., pp. 37-38.
60. G. Reuber, et al., "Private foreign investment in development". in Ibid, p. 38.
61. I.C. Oimoisili, Key success factors in multinational and indigenous companies in Nigeria: A comparative

- Analysis, Columbia Journal of World Business. Vol. XIII, No.3, Fall 1978, pp. 40-50.
62. Ibid., pp. 43-45.
63. J.P. Agarwal, "Determinants of foreign direct investment: a survey" in OECD. International investment and multinational enterprises: incentives and disincentives, op.cit., p. 40.
64. To somewhat, Hood and Young in a study in U.K. and R. of Ireland have found that while none of the labour, raw material or relative cost measures emerge as of major importance in the initial investment decision, the availability of acquisitions and government financial assistance were apparently important locational determinants for a significant minority of the 140 sample firms. It was also found that regional incentives exert an influence both on the initial decision to invest and on subsequent reinvestment, but the effect may be marginably stronger at the initial investment stage. More detail in: N.Hood and S. Young. A Comparative study of corporate strategies of manufacturing MNEs operating in areas of high levels of regional assistance in U.K. & republic of Ireland. University of Strathclyde - Glasgow, January, 1983, pp. 7-8.
65. J.S. Hill and R. Still, Adapting products to LDC tastes. Harvard Business Review, March-April 1984, pp. 92-101.

66. Ibid., p. 93-94.
 67. N. Piercy, Export Marketing Management in medium-size British Firms, European Journal of Marketing, vol.17 no.1, 1984, pp. 48-67.
 68. Ibid., p. 50.
 69. Ibid., p. 54.
 70. P.R. Varajajaran. Vaulting trade barriers: the Japanese approach, Long range planning, vol.18, no.1, 1985, pp. 73-79.
 71. Ibid., p. 74.
 72. Financial Times, January 5 1983, p. 28.
 73. Financial Times, May 20 1983.
 74. G.J. Hooley and J.R. Newcomb, Ailing British Exports Symptoms Causes and Cures, The Quarterly Review of Marketing, Vol. 8, No. 4, Summer 1983, pp. 15-22.
- See also:
- M.J. Baker, Export Myopia, The Quarterly Review of Marketing, Spring 1979, pp. 1-10.
 - W.P. Turnbull and T.M. Cunningham, International Marketing and Purchasing, London: the MacMillan Press 1981.
75. Ibid., p. 15.
 76. Ibid., pp. 16-19.
 77. G. Lancaster and I. Wesenlund. A product life cycle theory for empirical evidence concerning the protection of the U.K. and European international trade: An Empirical Investigation, European Journal of Marketing, Vol. 18, no. 617, 1984, pp. 72-89.
 78. e.g. British Leyland supplies only spare parts to Egypt.

79. Anglo-Egyptian Conference held in London, November 23, 1983.
80. Lloyds Bank Groups Economic Reprot, 1984, p.1.
81. T. Levitt, The globalization of Markets, Harvard Business Review. May-June 1983, pp. 92-102.
82. E.T. Weisskopf, "Capitalism, underdevelopment and the future of poor countries", in D. Dholakia, Marketing in less developed countries: its nature and prospects", in G.S. Kindra (Ed) Marketing in Developing Countries, London: Croom Helm, 1984 , p. 10-12.
83. B. Fritsch. "The future of the World economic order", in N. Doholakia, marketing in less developed countries, op.cit., p. 12.
84. R. Nurske "The theory of development and the idea of balanced growth", in J. Kinsey. The role of marketing in economic development, European Journal of Marketing vol. 16, no. 6, 1982, pp. 64-76.
85. P. O'Briena nd E. Kisanga, "MNCs and public enterprises in developing countries", in Economic Intelligent Unit: Multinational Business, no.2, 1984, pp. 12-19.
86. D. Maheswaran, "State enterprises: a marketing perspective", in N. Doholakia Marketing in less developing countries, op.cit., pp. 216-237.
87. J.J. Jorgensen et al. "Market imperfections and Organizational structure: the LDC perspective", in N. Doholakia. op.cit., pp. 172-187.
88. P. O'Brien and E. Kisanga. MNCs and public enterprises in developing countries, op.cit., p.12.

89. J.J. Jorgensen, et.al., Market imperfection and Organizational structure: The LDC perspective, op.cit., pp. 182-184.
90. N. Dholakia, Marketing in less developed countries, op.cit., p. 17.
91. L.H. Thunell, Political risks in international business: investment behaviour of multinational corporations New York: Praeger, publishers inc. 1977 pp. 67-71.
92. H. Schollhammer, "Identification, evaluation and prediction of political risk from an international business perspective", in M. Ghertman and J. Leontiades (ed.) European Research in international business Amsterdam: North-Holland Publishing Co. 1978, pp.91-109.
93. Ibid., p. 96.
94. L.H. Thunell, Political risks in international business, op.cit., p.66.
95. T.R. Green, "Political instability as a determinant of U.S. foreign investment", in L.H. Thunell, op.cit., pp. 47-48.
96. D.G. Bradley, "Managing against expropriation" in W.Keegan, Multinational marketing management (2nd ed.) New Jersey: Englewood Cliffs, 1980, pp. 150.
97. S. Douglas et.al., approaches to assessing international marketing opportunities for small and medium sized companies, Columbia Journal of World Business, vol. XVII, no.3, 1982, pp. 26-32.
98. E. Mahmoud and G. Rice. "Marketing problems in LDCs: the case of Egypt", in G.S. Kindra (ed.) Marketing in Developing countries, op.cit., pp. 75-94.

99. Ibid., p. 90-91.
100. Ibid., p. 90.
101. P.R. Varajarajan, Marketing in developing countries: The new frontier, Long Range Planning, Vol. 17, no.6, 1984, pp. 118-126.
102. E. Kaynak, "Marketing research techniques and approach for LDCs", in G.S. Kindra (ed), Marketing in developing countries, op.cit., pp. 238-250.
103. S. Onkvisit and J.J. Shaw, An examination of the international product life cycle and its application within marketing, loc.cit..
104. N. Hood and S. Young, The economics of multinational enterprise, op.cit., p. 83.
105. Ibid., pp. 83-84.
106. Ibid., p. 84.
107. J.C. Camillus, Technology-driven and market-driven life cycle: implications for multinational corporate strategy, Columbia Journal of World Business, Summer Focus, 1984, pp. 56-60.
108. D.P. Wright, et.al. "The Developing World to 1990: Trends and Implications for multinational business" In J.C. Camillus, op.cit., p. 58.
109. J.C. Camillus, Technology-driven and market-driven life cycle, op.cit., p. 58.
110. D.P. Wright, et.al. "The developing world to 1990: Trends and implications for multinational business" In J.C. Camillus, loc.cit.

111. G. Lancaster and I. Wesenland, A product life cycle theory for international trade, loc.cit.
112. Ibid., pp. 82-83.
113. Ibid., pp. 88-89.
114. S. Douglas, et.al., Approaches to assessing international opportunities for small- and medium-sized companies, op.cit., p. 28.
115. W.A. Stoever, Endowments, priorities and policies: An analytical scheme for formulation of developing country policy toward foreign investment, op.cit., pp. 4-5 and p.8.
116. Ibid., p. 5.
117. The Economist, March 23, 1985, p.99.
118. Al Siyassi, December 30, 1984, no. 486, p.7.
119. T.N. Gladwin, "Technology and Material Culture", in V. Terpstra (ed.) The Cultural Environment of International business Cincinnati: South-Western Pub. Co. 1978 , pp. 185-186.
120. Ibid., p. 186.
121. V. Terpstra, International Marketing, op.cit., p.56.
122. R. Wilson, The economies of the Middle East, op.cit., p. 22-23.
123. V. Terpstra, Internatioanl marketing. op.cit., p.69.
124. J. Kinsey, The role of marketing in economic development, op.cit., p. 73.
125. R. Cateora and J. Hess, International marketing, Homewood: Richard D. Irwin, inc. 1979 ,pp.93-95.

126. A.M. Elbasher and J.R. Nicholls, Export marketing in the Middle East: The importance of Cultural differences., European Journal of Marketing, vol. 17, no.1, 1983, pp. 68-80.
127. S. Douglas and C. Craig, "Marketing research in the international environment" in E. Mahmoud and G. Rice, Marketing Problems in LDCs: the case of Egypt, op.cit., pp. 83-86.
128. P. Michell, "Infrastructure and international marketing effectiveness", in E. Mahmoud and G. Rice, loc.cit.
129. W. Keegan, Multinational marketing management op.cit., p. 214.
130. P. Michell, Infrastructures and international marketing effectiveness. op.cit., p. 84.
131. J. Hill and R.R. Still, Effects of Urbanization on Multinational product planning: Markets in lesser-developed countries, Columbia Journal of World Business, Summer. Focus, 1984, pp. 62-67.
132. V. Terpstra, International Marketing op.cit., p. 120-121.
133. A.T. Sommers, Ends and Means: Market vs. government, Economic Impact. No. 30, 1980, pp. 71-76.
134. M.L. Weidenbaum, Government power and business performance, Economic Impact, No.34, 1981, pp.16-22.
135. P. O'Brien and E. Kisanga, MNCs and public enterprises in developing countries, loc.cit.

136. R.A. Ajami, Arab response to the Multinationals, op.cit, p.110.
137. M.S. Al-Mauthen, Marketing in developing countries: The Iraqi Situation. PhD. thesis. University of Strathclyde., 1977, pp. 576-586.
138. Ibid., p. 592.
139. M. Hajimiratayeb., "Cultural determinants of organizational behaviour and responses to environmental demands", in J. Child, Internatioanl management: the challenge of cross-national inquiry , Leadership and organization development journal, vol.2, no.2, 1981, pp. 2-5.
140. Ibid., p. 3.
141. A. Buera and W. Glueck., Storage of economic development and the management elite: the case of Libya, Management International Review., Vol. 18, no. 1, 1978, pp. 33-42.
142. Ibid., p.40.
143. C. Pezeshkpur, Challenges to management in the Arab world, Business Horizon, August, 1978, pp.47-55.
144. E. Mahmoud and G. Rice, Marketing Problems in LDCs ... op.cit., p.88.
145. M. Luqmain, et al. "Marketing in Islamic Countries A Viewpoint", in E. Mahmoud and G. Rice, Loc.cit.
146. A. El Haddad, Marketing and economic growth: An analysis of the contribution of marketing to economic growth in developing countries with particular reference to the case of Egypt, Ph.D. thesis, University of Strathclyde, 1980, pp. 439-440, and 679-680.

147. S. Kobrin, Managing political risk assessment: Strategic response to environmental change, Berkely: University of California Press, 1982, pp. 114-120.
148. F.T. Haner, Rating investment risks abroad., Business Horizons, Vol.22, no.2 1979, pp. 18-23.
See also H. Schollhammer, Identification, evaluation and prediction of political risks from an international business perspective, op.cit., pp. 108-109.
149. Ibid., p. 19.
150. Al Siyassi, (Egyptian newspaper) no. 486, December 1984, p7.
151. R. Ajami, Arab response to the multinationals, op.cit., pp. 57-88.
152. Ibid., p.73.
153. OECD. Investing in Developing countries, 5th ed. Paris, 1983, pp. 19-23.
154. M. Al-Muathen., Marketing in developing countries: The Iraqi situation, op.cit., pp.102-103, pp.636-641.
155. Ibid., p. 629.
156. Ibid., p. 477.
157. Ibid., p. 477.
158. A.M. Elbashier and J. Nicholls., Export Marketing in the Middle East, op.cit. pp. 74-76, p.78 and p.80.
See also: A. Elbashier and J. Nicholls., Export Marketing to the Arab World: the importance of cultural differences, London: Graham & Trotman, Ltd., 1982 , pp. 78-102.

159. D.T. Dunn, Agents and distributors in the Middle East Business Horizons, Vol.22, no.5, 1979, pp. 69-78.
160. Ibid., p. 78.
161. J. Arbose, "Wise men from the East bearing gifts" in E. Mahmoud and G. Rice , Marketing problems in LDC....op.cit., p. 88.
162. A very roughly translated verse from the holy "Quoraan" verse no. 275, in Sourate el Baquarah.

CHAPTER 2

CHAPTER 2

THE IMPACT OF FDI IN DEVELOPING COUNTRIES "WITH SPECIFIC REFERENCE TO THE MIDDLE EAST "

Introduction

Despite the argument that the role played by FDI - as channelled through Mncs - in the overall development of developing countries is widely regarded as valuable, it has also been established in the light of the preceding chapter that a Mnc has its own reasons/motivations for FDI.

As one would expect, it seems mutual interests exist among both partners as an investment venture (i.e. Mncs, and the host nations). Nevertheless, it is not surprising that one may find the list of arguments and counter arguments about the FDI role is endless also. As demonstrated in the case of the Middle East earlier some oppose FDI, while others who support it.

Perhaps one cannot deny the importance of infusions of foreign capital, know-how and technology, etc. for a developing nation. Yet the potential payouts, transfer fund and profits, the creation of dependence case on foreign nations or hindering the development of national capabilities and discouraging the development of domestic entrepreneurship etc. still remain as causes for developing nations' concern. In other words, benefits which can be realised versus costs incurred as a result of FDI are the two major unresolved questions in conflict. Furthermore, the problem may become rather complex if the Mncs' parent countries'

interest is included in the overall debate as well. Mncs home governments may have some economic interests behind the internationalisation of its national companies, and criticism is frequently directed at e.g the export of jobs, loss of capital investment, etc. as companies move production facilities, funds, and so forth to foreign countries.

Broadly speaking, the question which focuses on FDI impact is presumably multi-fold. In other words, it must be noted that one could make a very extensive list of possible arguments and counterarguments on FDI impact. But such a list would be of little value in assessing the impact of FDI as one would get confused by a large number of different viewpoints. However, it is proposed to provide firstly a summary of the theoretical background concerning the alternative views of FDI impact. Secondly, for an evaluation of FDI impact, a choice has been made between certain types of FDI influences on host countries' development. A summarised review of some empirical evidence on FDI impact will follow thereafter. Thus, the impact of FDI in developing countries will be discussed through the following stages:

- . Alternative views on FDI impact.
- . The benefits and costs of FDI in developing countries.
- . Empirical evidence on FDI impact in developing countries.
- . Empirical evidence on FDI impact in the Middle East.

2.1 Alternative views on FDI Impact

As mentioned earlier, argument, counterarguments and studies on FDI impact in developing countries are very numerous. Meanwhile, it has been considered important to highlight some alternative views concerning FDI impact in host developing countries under the following headings:

The Critical Views

Some of these views can be summarised as follows:

(1) Baliga (1), has discussed three major viewpoints (which have been based on an analysis of U.S. Mncs operations in the developing countries). These viewpoints are as follows⁽²⁾:

(A) The pure Colonial world view: The main critical assumptions underlying this world view are:

(a) The host countries are mainly sources of material resources. Thus, investment should be confined to extracting these resources for use in the home or other developed countries, (b) the price paid to the host countries for these resources should be the lowest possible, (c) Mncs should be exclusively responsible for determining the location, amount and type of investment, in addition to which the investment would be committed only if conditions were very favourable, (D) host country's residents do not have the capacity to manage sophisticated technological and organisation systems, (e) Markets for Mnc produced goods either do not exist or the cost of creating them would be

prohibitive and (f) countries in which the government directs investment decisions constitute a higher degree of risk.

(b) The investor-nation-converter world view: The assumptions underlying this view are precisely as follows:

(a) Markets for converted goods and services do exist in host countries and it is useful to exploit these opportunities, (b) in order to exploit such opportunities, it is useful to seek local investors' participation; control will be maintained in Mncs hands. This is in addition to the decision as to how much and when to invest will still be left in the hands of Mncs, (c) in order to operate effectively, control and majority share-holdings should still be held by Mncs also, and (e) markets outside the host country are better covered by the parent than the host nation subsidiary.

(c) The host-nation-converter world view: This view is also based on certain assumptions such as: (a) in order to remain competitive, it is necessary to invest in those countries where labour costs are low and productivity is fairly high, (b) additionally, labour intensive production should be shifted, whenever feasible, to the countries that satisfy assumption (a), (c) the jobs that are shifted should be fairly routine and mechanical, so that they can be learned/performed by the developing countries' workers, and

(d) to retain flexibility to shift operations to other attractive markets, the size of investment should be kept fairly low.

Based on the above views, it could be stated that FDI in the host countries can be seen as an exploitative relationship. In this connection Frank⁽³⁾, has also pointed out that FDI is an exploitative relationship in that such investment is largely concentrated in extractive industries and therefore it provides only weak linkages backward and forward with the rest of a nation's economy. Moreover, it tends to reinforce a pattern of development that over the long run would trap the poor countries in their poverty because of the inevitable decline in the prices of exports of primary commodities as compared with the prices of imports of manufactured goods. Meanwhile, rich countries would gain both from high financial returns to their investors and from a flow of cheap raw material for their own industries⁽⁴⁾.

(2) As might be expected in the height of the analysis of FDI theories, it could be argued that many of the previously-presented views may be associated with or based on the characteristics and objectives of Mncs for FDI. e.g. there are several forces governing a given host market's comparative advantages. Country-specific factors (e.g. locational factors or market imperfections etc) and Mncs specific factors (e.g technology, personnel and capital capabilities, etc), explain to some extent why Mncs activities

have been shifted and developed abroad. In other words, the larger the market, the lower the degree of competition, the more highly endowed the market, the greatest the possibility that will attract Mncs. Furthermore, not only through analysing the Mncs characteristics can one explain the exploitative relationship, but also such characteristics might have influences on the host countries goals (see no.3).

(3) Hood and Young⁽⁵⁾ have argued that there are some ways in which the characteristics of Mncs may affect host countries goals and sovereignty. Exhibit B-3 shows Mncs characteristics, ^{am} examples of problems for host countries and the areas in which the latter's goals are affected. Based on their analysis of the relationship between the host countries, the conflicts and the imperialist behaviour of investigated various theories of which one is the radical theory. According to this theory, a Mnc is regarded as a new agent of imperialism. Motives for imperialist behaviour could include for example: the declining rate of profit in Mncs home country may encourage the export of capital abroad, which in turn may produce an imperialist relationship between home and host states. There is a continued need to find new outlets for surplus production (either by taking the form of exports or by involvement in FDI) in order to avoid economic crises. Additionally, technological dependence, high import dependence, foreign aid, transmission of tastes and misallocation of resources etc. in poor countries are also an outcome of imperialism. Moreover, the importation of skilled manpower may limit

Exhibit (B-3) Influence of MNCs characteristics on host country goals.

Characteristics of MNCs	Example of problems for host country	Host country goal affected
Large diversified	Monopolistic practices	Efficiency, Equity
Multinational	Circumvention Of national policies	Equity, sovereignty
Foreign	Loss of autonomy	Sovereignty
Private, Western	Efficient capitalist form of organisation	Efficiency, equity, sovereignty
Technologically advanced	Technologically reliant	Efficiency, sovereignty
Mobile	Level and stability of employment	Sovereignty, equity, efficiency

Source: N. Hood and S. Young, The economics of Multinational enterprise, op.cit., p.240.

the possibility of developing the local skills or the use of high technology may damage the human capital in the host countries⁽⁷⁾.

(4) Biersteker⁽⁸⁾, has analysed some areas of criticism of Mncs investments in developing countries. A summary of his analysis as portrayed in exhibit (B-4) shows five areas of criticism, two types of consequences of Mncs investments in developing countries and the mechanisms by which they are facilitated. Meanwhile, he argued that there is broad agreement among the critical views about first-order consequences of Mncs investment in terms of e.g. income flows and balance of payments affects, displacement of indigenous production, technology and patterns of consumption, etc. At the same time, he argued that the disagreement between Marxists and non-Marxist's views lies only in the ascription of how Mncs cause the first-order consequences. Moreover, Mncs are criticized for their distortion of development and whether they can ever make a contribution to development in certain situations. They often increase the propensity for conflict either international or domestic between Mncs and the host country or between competing groups within the host country. Even when overt conflict is absent, there is a consensus that investment by Mncs both enhances and maintains their hegemonic dominance in under-developed countries.

Exhibit (B-4) MNCs investments influences in developing countries: Mechanisms and Consequences.

Areas of critics of MNCs investment (+)	Reasons/Mechanisms facilitate the Consequences	First-order Consequence	Second-Order Consequence
Income flows & balance of payments effects (International capital movement)	MNCs --(1) Bring in little capital initially, (2) limit subsidiaries to local markets (3) remit excessive profit (4) employ transfer pricing (5) establish few financial linkages to the local economy	Net out flow of capital and a worsening balance of payments.	(1) reduction of political capabilities: making a minimal contribution to tax revenues of host governments. (2) Reduction of economic capabilities: blocking the diffusion of multiple effects and decreasing capital stock necessary to economic growth. (3) increase in the propensity for conflict and maintained dominance: when the supply of foreign capital is scarce, a net outflow can be a source of tension. Dependence on further foreign investment to make up for the capital drain is increased.
Displacement of indigenous production	(1) buy out import-substitution industries and transform them into subsidiaries: export finished products, establish a subsidiaries & sales organisations, buy off local manufacturers (2) drive indigenous competitors out of business due to their competitive advantages e.g. economics of scale, finance, marketing, attractive wages, vertical integration, capital intensity, etc.	Displacement of indigenous production (displacement of both enterprise and entrepreneurs.	(1) reduction of political capabilities: displacing entrepreneurs eliminates a strong group on behalf of reforming institutes and neutralizing powerful groups opposed to development efforts. (2) Reduction of economic capabilities: benefits increasingly go abroad, worsening balance of payments, displacing entrepreneurs harms the quality of local factors of production and self development. (3) Increase in the propensity for conflict and hegemonial dominance: displacement increase dependency on MNCs and reduce autonomy in decision-making.
The extent of technology transfer	(1) Concentrate R&D efforts in the home of the parent. (2) Attempts to retain a monopoly over their technology	Transfer a small or limited amount of technology	(1) Reduction of political capabilities: control over changing technology enables MNCs to retard the decline in their bargaining power. (2) Reduction of economic capabilities: MNCs can increase their influence on domestic consumption patterns. (3) Increase in the propensity for maintained dominance: technological dependence is increased.
Introduction of inappropriate technology	(1) Undertake R&D efforts in the home country where labour is scarce and capital relatively abundant, hence the factor mix becomes capital intensive. (2) Transfer their forms of production en masse (bring with them complete management, technology, skills, etc.	Inappropriate technologies	(1) Reduction of political capabilities: creation of a restricted and upper class oriented market, favouring skilled over unskilled labour, and encouragement of an unequal distribution of income leading to growth without development. (2) Reduction of economic capabilities: aggregation of unemployment, discouragement of production linkages, bias against the development of capital, encouragement of further displacement, and worsening balance of payments. (3) Increase in the propensity for hegemonial dominance maintenance: creation of technological dependence.
Inappropriate patterns of consumption	(1) Concentrate on continuous innovation for a small no. of people and the introduction of new consumption goods before the old ones have fully spread. (2) Employ marketing techniques (first through trade and then by investment to create marketing in developing countries) (3) Take advantage of capital-intensive techniques & other competitive advantages to establish and maintain their influence over consumption patterns.	Inappropriate patterns of consumption.	(1) Reduction of political capabilities: MNCs can retard the decline of their bargaining power in relation to the host country. (2) Reduction of economic capabilities: increase pressure on foreign reserves and reducing capital formation potential, stimulate further capital intensive production facilities in local enterprises, and weakens the links between the modern sector and the rest of the economy in the periphery. (3) Increase in the propensity for conflict: introduction of foreign cultural values, a crisis in which expectations for additional consumption goods exceed the capacity of economic and political systems to meet them can develop.

(+) As to the issues of development of allied local groups and income distribution and widening gap of MNCs investments see: I. Biersteker, Distortion or Development ? op.cit., pp. 17, 19-25.

Source: Compiled from: I. Biersteker, Distortion or Development ? op.cit., pp. 3-17 (figures 1.1. to 1.3).

(5) Brandt⁽⁹⁾, Freeman and Persen⁽¹⁰⁾, Gladwin⁽¹¹⁾, Livingstone⁽¹²⁾ among others have argued that Mncs have been heavily criticized for numerous unfavourable influences on the host countries development. Some of these influences can be summarised as follows: (A) the ability of Mncs to manipulate financial flows by the use of artificial transfer prices is bound to be a matter of concern to host governments due to the potential influence of such practices on host countries' foreign exchange. As Mncs can evade some controls on foreign exchange by blurring the distinction between current and capital transaction, setting special prices for goods/raw material sold by one subsidiary to another, setting prices artificially to minimize their profits in high tax countries, shifting profit from high to low tax countries to get around exchange a price controls or customs duties etc. Practices of these kinds may produce a potential clash of interests between the host countries (developmental objectives and national interests) and the Mncs.

(B) As the host governments increasingly seek to protect domestic enterprises or to earn foreign exchange through imposing some measure/restraints as a part of their national planning, Mncs try to free themselves from such restraints. This in turn may disrupt the host country's national planning.

(C) As the Mncs tend to keep the bulk of their R&D activities located in their home countries, or to bring

in high/low technological level and other related activities, such issues/practices may either perpetuate the technological gap between the host states and the Mncs home countries, or they might create technological dependency and brain drain (with the possibility of immigration or importation of scientists, engineers, etc. could exist).

(D) Mncs have also been criticized for unethical political and commercial activities. There have been attempts to bring down governments, illegal payments to government officials etc. such cases have also exposed the Mncs to criticism which is often very severe.

In general, it is clear that many of the criticisms of the role played by Mncs in developing countries have emerged from and are perhaps associated with the growing power of Mncs in recent years. Consequently, the developing governments may face a series of frustrating problems as they seek to shape a national policy towards FDI or dealing with Mncs. If, for example, a Mnc repatriates profits or funds, it may influence the host countries' balance of payments and foreign exchange gains. On the contrary, if a Mnc reinvests the bulk of its profits domestically, it may be accused of increasing its ownership or monopolistic power and control of the host country's economy. If the Mncs pay the prevailing wage rate, they may be accused of exploiting cheap labour. If they pay a higher rate, they may be accused of widening the gap between social classes in host countries and in some cases of attracting skilled

manpower the shortage of which will cause indigenous enterprises to suffer.

Comments on the Critical views:

It may be useful - before reviewing the counter-arguments concerning Mncs role to present some perspectives in relation to the foregoing views. Initially, despite the difficulties which may surround the examination of many of the previously-reported critical views, it could be argued also that one cannot suggest that Mncs are models of virtue and selflessness. The analysis of Mncs overseas activities/investment provides evidence upon which some of the critical perspectives have been based.

Baliga⁽¹³⁾, for example, has argued that the pure-colonial view or the feelings of exploitation are compounded by and linked with observations such as that a significant proportion of investment by Mncs is geared towards setting up primary production systems for exploiting natural resources like oil, rubber, iron, ore, etc. for consumption at home or other countries. Furthermore, little or no effort is devoted to creating secondary or tertiary production systems. Additionally, the feelings of exploitation are compounded by the prices Ldcs have to pay for processed and finished goods, the desire of LDCs for better terms of trade, control over their resources, etc. and Mncs negative perception of these have resulted in numerous conflicts, Mncs disinvestment, nationalization, expropriation, etc. Moreover, some Mncs have tended to be very suspicious of government intervention and have tried to organise their

operation by means of alternative forms such as joint venture or minority holdings, etc.

As argued earlier, the size of market can probably be determined by e.g. GNP, GNP per capita in a given host country. It has also been suggested that a country which enjoys high GNP per capita, for example, could attract more FDI. In this connection, Lall⁽¹⁴⁾, has reported evidence which may demonstrate that Mncs are considerably concerned with the richer markets rather than the poorer ones. i.e. Mncs do not necessarily intend to develop the underdeveloped countries, but rather the profitable markets. Distribution of FDI and other resources from OECD countries among groups of developing countries as shown in Table B-27 may illustrate this argument.⁽⁺⁾

According to Lall's comment, high income developing countries (with over \$1,000 per capita GNP) accounted for 60% of the stock of FDI by the end of 1978 and also took the lion's share of fresh inflows in 1978-80. Low income developing countries (with an annual per capita GNP of less than \$380 in 1979 but excluding the socialist countries of Asia) accounted for almost 60% of the population of the same group of developing countries, but received less than 5% of the flow of FDI in 1978/80 compared with 14% in 1970-72.⁽¹⁵⁾ In other words, while the poorer countries holding the great mass of the third world's population, receive very little of Mncs investment, the largest Latin American countries namely Brazil and Mexico account by

(+) For table (B-27) see following page.

Table (B-27) Distribution of FDI and other resources from OECD countries among groups of developing countries, 1978-80 (percentages)

	Gross National product 1979	Stock of Foreign direct investment end-1978	Flows from OECD countries		Bank Loans	All Resources
			Annual Average, 1978-80	Foreign Direct Investment		
Total developing market economies	100.0	100.0	100.0	100.0	100.0	100.0
By Income Group						
Less than \$380 per capita GNP	16.9	13.5	3.1	1.4	16.8	
\$380-\$1,000 per capita GNP	14.7	13.5	8.7	11.4	19.4	
Above \$1,000 per capita GNP	68.0	58.2	49.5	86.8	50.2	
Of which: tax havens	0.3	14.2	14.8	0.2	3.6	
No per capita GNP data	0.0	0.6	23.7	0.0	26.1	
By Region						
Europe	3.0	0.4	1.7	6.4	3.7	
West Asia	14.6	3.2	-2.6	3.4	11.5	
South Asia	9.9	5.0	4.7	13.0	8.5	
South and East Asia	13.9	22.1	18.7	12.3	12.5	
Socialist Asia	13.7	0.0	0.1	0.2	0.8	
Latin America	30.7	56.7	64.4	62.7	33.7	
Africa	14.1	12.4	13.1	13.7	29.4	
Unallocated	0.0	0.0	7.9	0.0	16.9	
Other Country Groups						
Least Developed countries	2.9	1.5	0.4	0.6	9.0	
Oil exporting countries	21.8	16.6	10.7	12.2	13.4	
Newly industrializing countries	27.1	33.7	40.1	56.9	20.1	
Tax Havens	0.3	14.2	16.0	0.2	3.6	

Source: U.N. Centre on Transnational Corporations, "Transnational Corporations in World Developments" Third Survey, 1983" in S. Lall, Transnational and the Third World, op.cit., p.5.

themselves for roughly 40% of total FDI in the Third World⁽¹⁶⁾. This in turn may mean that the richer the country, the larger the market and the more will it receive of Mncs investments despite the possibility that economic factors in determining FDI flows are generally overwhelmed by political and policy factors⁽¹⁷⁾.

Going back to the second critical view presented by Baliga (The Investor-Nation-Converter), and in the light of the preceding empirical evidences illustrated in Chapter (1), it could be argued that there is desire expressed by some Mncs to be exempted from any restrictions on ownership, trade, etc. i.e. the restrictions imposed by the host governments on foreign ownership, labour conditions and so forth are not welcomed by some Mncs. Such demands may broadly suggest that Mncs want to exercise total control/ to keep as high a degree of manoeuvrability as they can over the host market within which they operate. Even in case of the presence of local partnership (minority/majority partners), management will not entirely be localised. This in addition to the presence of local partner - as demonstrated previously in the case of the Middle East - will probably create potential for Mncs or overcome any domestic problems. Examples of these kinds may highlight the source from which the assumptions of the investor-nation-converter view reported earlier were derived.

Once again, based on the empirical evidences associated with the locational factors presented in the previous

chapter, it could also be argued that there is some doubt about the reasons or basis underlying the assumptions concerning the third critical view (host-nation-converter) presented by Baliga. Particularly in some cases the main concern of Mncs was linked with factors in investment climate, marketing, etc. rather than in cost ones.

As FDI is occasionally denounced on the ground that it takes out of poor countries more than it puts in, this type of argument particularly among the Latin American states' critics in the 1950's and 1960's was based on a comparison of two annual financial inflows: outflow of profits from developing countries⁽¹⁸⁾. Despite the fact that a simple comparison of such kinds of flows does not always make sense, it has been reported that in the latest year for which global data are available (i.e. in 1974), the Mncs repatriated profits of more than \$16,000 million from developing nations but brought in only \$7,000 million in new capital⁽¹⁹⁾. Furthermore, the fiery speech made by the Chilean Leader "S. Allende" to UN General Assembly in 1972 has also increased the tension between the host nations and Mncs. In his speech he reported that "not only do we suffer the financial blockade, we are also the victims of clear aggression. Two firms that are part of the central nucleus of the largest transnational companies that sunk their claws into my country, the International Telegraph and Telephone Company and the Kennecott Copper Corporation, tried to run our political life"⁽²⁰⁾.

Other unacceptable practices made by Lonrho in Africa, the improper and illegal payments by Lockheed Aircraft Corporation whilst the former has been accused by active involvement in the politics of Africa e.g. duplicity in dealing with black and white African countries, breaking of economic sanctions taken by the U.N. against the illegal regime in Rhodesia and the special payments and bribery, the latter has also involved in bribery cases and illegal payment to number of key overseas officials such as the case of the former Japanese Prime Minister⁽²¹⁾.

As might be expected, practices of the above kind - regardless of how valid they are - make it possible for the radicals to regard the Mncs as a threat to host countries national sovereignty either in political or cultural terms. As to the issues of dependency on Mncs as a source of finance, technological know-how and so forth, it could be argued that despite the doubts that may surround the assumption that the greater the reliance of developing country on Mncs, the greater the possibility of feeding their fear further, the relationship between Mncs home government and the host developing counterpart tends to play an active role in this respect. One of the most recent examples which may bring the issues of dependency into question is that of the U.S. - Nicaraguan case. In May 2, 1985, it was revealed that President Reagan implemented economic sanctions against Nicaragua in a move which appears certain to force the Sandinista regime closer to Moscow⁽²²⁾. As this

embargo will cover all trade between US and Nicaragua, despite the statements that there will be no attempt to widen the scope of the sanctions to include subsidiaries of U.S. companies operating in the Third World, the feelings of fear among many developing countries about their technological, trading, financial independents, etc. may be increased.

In short, having stereotyped Mncs as foreign and likely to act as instruments on their home governments or perform only for their own interests sometimes using unwelcome practices including embargoes made by some Mncs home governments on trade, etc. all of these stereotypes that can be spread so quickly in public thinking will be effectively used to channel mass fears or discontent about the role and the future of Mncs throughout the developing host states.

The Conventional views/Counter-arguments.

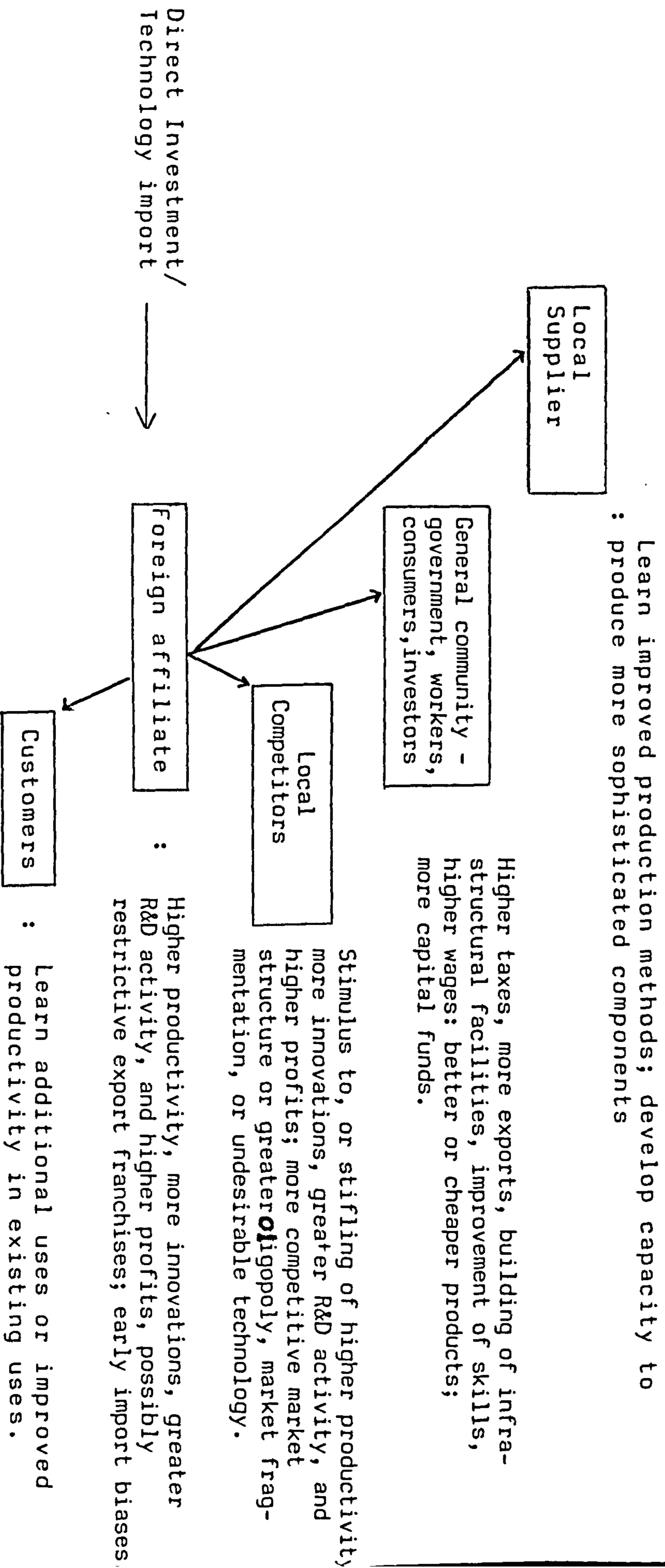
In discussing the contributions of FDI to the development of developing countries, one must keep in mind that the current theme is concerned only with outlining some views presented by the conventional writers, while the extent to which FDI can add particular contributions or bring in some undesirable effects will be illustrated in the next section more specifically. Thus, the following are examples of benefits which have been attributed to FDI/Mcns as suggested by scholars, economists, and practitioners, etc.:-

(1) Carr⁽²³⁾, has argued that FDI is undertaken by investors and is accepted by host countries because of the shared belief that substantial returns are available from FDI operations. According to the industrial Organisation approach to direct investment advanced by notably by Hymer, Caves and others, these returns are attributable to the transfer and exploitation of special assets possessed by foreign investors. While the returns to foreign investors are principally in the form of dividends, technical fees, and any unusual profits received from the sale of raw material, capital appreciation above the normal rate of inflation, etc., the returns to host countries may comprise higher productive capacities, higher wages, income, and employment and so forth. It has been argued also that because FDI can attract many criticisms such as the use of inappropriate technology, it is possible that the growth effect on host countries is critically related to the effectiveness with which the new technology is absorbed and diffused which in turn is dependent upon the responsiveness and creativity of local institutions⁽²⁴⁾.

Finally, according to Carr's viewpoint, figure (B-2) illustrates a visual impression of the various effects of FDI.

(2) Mikesell⁽²⁵⁾, Vernon and Wells⁽²⁶⁾, in their discussion of FDI benefits to development, do not deny many of negative influences of such investment in host countries

Figure (B-2) Effects of FDI on Economic Development



Source: D. W. Carr, "The impact of foreign direct investment in economic development of Australia", in D. Carr, Foreign investment and development in Egypt, op.cit., p.6.

but rather relate the extent to which FDI can effect or contribute to development of some factors. Mikesell⁽²⁷⁾, for example, has argued that FDI contributions (that have greater or lesser importance) depends on the nature of the industry and the level of development of the economy. Not all FDI is desirable in terms of its social benefits in relation to its social costs, and there are alternatives to the specific contributions of FDI. Meanwhile, FDI has been seen as a source of numerous benefits. It can play various roles in the development efforts of countries, e.g.:

(A) FDI as a source of capital. Although lack of foreign capital is frequently not a major constraint on development in some developing countries, most of these countries have generally relied in part on foreign capital to finance their needs for growth despite their fears about relying on outsiders.

(B) FDI can play a role in supplementing domestic entrepreneurship and inducing local people with resources to engage in entrepreneurship activities. Perhaps, many developing countries - even the primitive ones - have a considerable stock of latent entrepreneurial capacity, but the vast majority of the population lacks the knowledge and resources to break away from their traditional activities. Foreign firms, however, can bring to developing countries part of the dynamic entrepreneurial environment of the developed countries, and find opportunities for creating

new and better products from the natural resources etc.⁽²⁸⁾

(C) FDI as a source of technology. Although technology can be brought in from abroad in various forms other than FDI e.g. management contract, licensing agreement, published material, etc. , it has been argued that FDI remains the most important form of technology transfer. For certain types of industry and levels of development, FDI may be the only feasible way of acquiring technology. A minimum level of industrialisation including e.g. trained labour, professionals, engineers, etc. is required before a country can utilize technology purchased from abroad. Additionally in order to remain competitive in the export market for relatively high-technology products, it is usually necessary for the producers in a given developing country to have a continuous flow of technology from Mncs home country where the product was first produced. Above all, labour training at all levels and functional activities is also considered as one of the most important contributions of FDI to development in host countries.

With the concern about costs and dependency associated with the acquisition of foreign technology in general, host governments can establish special units to screen purchases of foreign technology by local firms, specify certain sums to be paid for royalties, encourage local firms to generate or at least to adapt technology at home, etc. (some government have already employed such practices/regulatory procedures)⁽²⁹⁾.

(D) FDI is a method of providing access to export markets particularly in certain cases where Mncs control foreign markets of some products. In other cases if developing countries want to export certain manufactured goods, the alternatives to the presence of Mncs seem few. As the desires of developing countries for exports have been so great, many of them have been willing to offer large incentives to Mncs that promise exports even if a wholly-owned subsidiary is involved.

(3) Hood and Young⁽³⁰⁾, have also acknowledged.- Under certain conditions - the potential contributions of FDI (capital inflow, technology, employment, etc), to the development of a host country. Interestingly, however, referring to their argument in terms of the imperialist behaviour of Mncs, in this connection they have argued that many of the theories of imperialism cannot be readily tested empirically and whatever the relationship between the two countries (e.g. the dependence of home country on imports of basic raw material, direct investment in host country, the military assistance to host country, etc.) - none of these examples prove that imperialist relationships exist, or that Mncs are agents for imperialism. Although it may not be possible to identify cause and effect at an empirical level the inter-relationships between politics and economic are apparent both from the case studies e.g. IIT, Lonhro, etc. and research works. Mncs activities must be assessed in political and social as well as in economic terms.

Despite their criticisms of the neo-classical theory (which asserts that the most important gains to host countries from FDI derive from higher tax revenues, economics of scale, etc), Hood and Young⁽³¹⁾ have extended their argument to include the following perspectives:

(A) Global neo-classical's view is based on an assumption that the market mechanism must be allowed to operate unhindered in order to produce a fully rational international division of labour that will optimise the productive resources of the world. The Mncs is regarded - according to this view - as the most effective medium for integrating and organising resource utilization on a global scale. It is also seen as the institution most likely to survive changing international political relationships. Throughout this process, Mncs is considered to be benign-aiding for example the transfer of resources from the developed nation core to the less developed periphery.

(B) The mercantilist's view is based on the belief that the world economy will become less interdependent as the conditions which originally facilitated the emergence of the Mnc have now changed. This view foresees the future development of regional economic blocs, so that international trade, investment patterns, etc. will increasingly become inter-regional.

(C) The orthodox theory. Although the dependency issues are important to the orthodox analysis of the impact of FDI on host countries, the orthodox school considers that there are also some elements of harmony and benefits in the interaction between home country government, Mncs, and the host country. Cohen's model, in this respect, assumes that a non zero-sum game exists between the Mncs and the nations in both developing and developed parts of the world⁽³²⁾.

(4) Stoever⁽³³⁾, has argued that FDI can contribute several types of benefits to developing countries, e.g. FDI may increase the possibility of capital formation through increasing the number and value of plants, equipment and possible transportation and communication networks, housing and health facilities, etc. It can also raise both quality and quantity of a country's GNP. FDI can also create new opportunities for complementary growth of employment, new skills, etc. A country's capital account is also likely to be improved - even temporarily - by the inflow of foreign capital, import substitution and the increase of the value of exports. Furthermore, the utilisation of local skills and resources, development of the depressed areas, the provision of an avenue for income redistribution, the establishment of political and military ties between Mncs parent government and the host counterpart, etc. - all of these benefits can possibly be created through FDI.

(5) Biersteker⁽³⁴⁾, has argued that the conventional writers attribute major economic benefits to Mncs because they bring in missing or deficient factors of production (e.g. capital, technology, managerial skills, etc). Mncs also provide access to foreign markets for exports, new jobs and the like. From the consumer's point of view, Mncs provide a better product at a lower price. There is also a whole series of indirect benefits resulting from Mncs investment. They can provide the necessary stimuli to energize the resources of LDCs, and have a considerable multiplier effect. Mncs enhance the competition and break local monopolies. Moreover, Mncs are agents of change altering traditional value systems, social attitudes, etc. The nation shares in the increased profits of the Mncs through taxation which will raise the former's financial capabilities. Above all, by improving the economic situation and capabilities of LDCs, MNCs, facilitate political development whether defined in terms of stability, industrialization, etc.

In discussing the neoconventional school's opposition to critical perspectives in each of the critical areas considered earlier, Biersteker has investigated the consequences of Mncs investment in developing countries.⁽³⁵⁾ Exhibit (B-5) therefore, portrays Biersteker's investigation of MNCs investment consequences in developing countries from the neoconventional school's viewpoints^(*).

* Envisioned by Vernon and his colleagues with Harvard enterprise project.

Exhibit (B-5) MNCs Investments influences in developing countries: the neoconventional viewpoint

Area of Critique of MNCs Investments	Reasons/Mechanisms Facilitate the Consequences	First-Order Consequences	Second-Order Consequences
Income flows and balance of payments effects.	<ol style="list-style-type: none"> 1. Favour the use of local resources after the first importation of capital. 2. Provide access to export markets. 3. Do not remit excessive profits. 4. Do not abuse transfer pricing. 5. Establish extensive linkages to local economy. 	Mobilization of domestic economy (1) probable improvement of balance of payment position and probable net inflow or balance of capital flows.	<ol style="list-style-type: none"> 1. Increase political capabilities: more responsive to legal and tax laws than their domestic counterparts. 2. Increase in economic capabilities. More productive use of resources. Lower prices and greater export potential. 3. Conflict and dominance maintenance: not directly addressed but national autonomy identity and control are devolved.
Displacement of indigenous production	<ol style="list-style-type: none"> 1. Buy out only a small number of import substitution industries 2. Drive only a small number of indigenous competitors out of business because 3. They generally do not invest in the same industries. 	A limited degree of displacement of indigenous production.	<ol style="list-style-type: none"> 1. Increase in political capabilities (1) local tax collections may be increased (2) Effect on local entrepreneurs and local politics not addressed. 2. Increase in economic capabilities: (1) in some product lines displacement may be harmful but they are exception. MNCs are constantly innovating. (2) increased efficiency in resource use. (3) can induce improvements in operational efficiency of all indigenous firms (4) perform the construction function of elimination inefficiency wasteful firms. 3. Conflict and dominance: (1) concurs with critical theories on conflict (2) dominance not addressed
The extent of technology transfer	<ol style="list-style-type: none"> 1. Concentrate R&D efforts in the home country of the parent, yet 2. Provide a number of training and managerial programmes to make use of local personnel in their production processes. 	Substantial transfer of technology (more than other available mechanisms).	<ol style="list-style-type: none"> 1. Increase in political capabilities: additional knowledge obtained by indigenous staff can be tapped by host country government in bargaining with subsequent MNCs. 2. Increase in economic capabilities: MNCs add value to the local labour force in terms of skills and knowledge.
Introduction of inappropriate technologies.	<ol style="list-style-type: none"> 1. Undertake R&D efforts in home country where the factor mix is capital-intensive. 2. Are provided incentives by host governments to introduce capital intensive technologies. 3. However, considerably adapt production techniques within technological and economic constraints when transferring production processes. 	Some capital-intensive technologies but not as excessive as charged by critics and often only when technological and economic constraints restrict the range of choice.	<ol style="list-style-type: none"> 1. Increase in political capabilities: enclave economies have set in motion a series of political and economic forces that operated to break open the enclave. 2. Increase in economic capabilities: (1) encouragement of production linkages (no difference in behaviour of foreign and domestic firms (2) provide better product at lower price (3) provide additional learning for indigenous employees ... (4) capital-intensive techniques may be more efficient in the use of local resources
Inappropriate patterns of consumption.	<ol style="list-style-type: none"> (1) Have an advantage in the development and marketing of new products. (2) Will provide attempt to create new oligopoly advantages through product changes and/or advertising. 	Influence on patterns of consumption.	<p>Decrease in political capabilities: MNCs can retard the decline of their bargaining power in relation to the host country.</p> <p>Increase in economic capabilities: (1) induces product improvement (2) disseminates new market techniques (3) establishes vigorous standards for indigenous producers (4) add to productivity of local labour and capital (5) provides consumers with more variety.</p>

Comments on the conventional - neoconventional perspectives

In general, the current debate on the consequences of FDI for the economies of developing countries is not limited. Without denying both the critical and conventional perspectives concerning FDI consequences, it should be admitted that not all the consequences - even if they can be verified - lend themselves to measurement on a quantifiable and significant basis, separately or in the light of their interacted relationships. In other words, it may be a risky proposition to assume, for example, that an increase in the propensity for conflict due to the introduction of foreign cultural values by Mncs occurs in country 'X' while in country 'Y' there is, an increase in political capabilities as a result of the additional knowledge, R & D efforts, etc. associated with the presence of Mncs.

It may also be hard to argue that the recent development in some developing countries (e.g. Hong Kong, Singapore, etc.) can only be explained by factors in FDI contributions, while in other parts of the world the deterioration in economic and social welfare is due to the lack of such factors.

Nevertheless, despite the problems surrounding the measurement of non-economic effects of FDI particularly, it must be noted this does not mean that these effects are for that reason either less important or can be neglected when assessing FDI impact in a given developing country. At the same time, it could be argued that as the develop-

ments or the benefits related to FDI may occur, the costs associated with these are inevitably incurred. ie. benefits and costs of FDI are facts and it must be acknowledged that pragmatic and mutual interests are likely to exist between both host countries and Mncs with particular reference to FDI.

As much of the criticisms of FDI is based on the argument that FDI may involve a higher cost to the nation and perhaps do not provide comparable benefits or that there are alternatives to FDI contributions of such investment, most of the counterarguments have suggested that FDI is one of the most effective mediums to the development of a given country, and as to the question of costs it is likely to be dependent on factors other than FDI perse (e.g. type of the industry, government policies and regulations governing FDI activities, level of development and so forth).

As the critical views/writers of FDI have a number of observations or events some of which have exceptionally occurred and in consequence they launched thier attack on Mncs, the counterviews have also advanced and built up their arguments on several observations some of which have validity for many contributions associated with Mncs presence in developing countries. Taking the preceding argument into account, as will be demonstrated in the next section, one cannot ignore observations such as:

(1) The remarkable development and the growth in the share of some developing countries (e.g. Brazil, S. Korea,

Taiwan, etc.) in the world markets for exports of manufactured goods⁽³⁶⁾

(2) The growth of net direct inflows of capital from developed to developing countries. In 1971, for example, it accounted for \$3,309 million versus \$14,639 million in 1981⁽³⁷⁾. i.e. in 1981 the inflow of foreign capital increased dramatically (442%) compared with 1970.

(3) The growth of competition among developing countries to attract foreign investment by offering a wide range of incentives (even by sacrificing some ideological considerations and permitting the 100% foreign equity ownership required in some cases). In other words, despite the fears of dependency and other associated undesirable influences many developing countries still welcome of FDI.

(4) What happened when some of the largest oil-producing countries including Iran, Saudi Arabia, Libya, Kuwait, Venezuela, etc. have fully nationalized their oil industries, and now foreign firms perhaps provided only technical know-how. The national sovereignty of each country remains as it was before the nationalization measures were undertaken. Furthermore, in nearly all of other LDCs oil producers the government in large measure owns and controls the national oil industries by means of joint ventures with foreign firms or by means of so-called production sharing agreements, etc. and the most significant point to be mentioned is that under such arrangement 85-90% of the net profits from oil operations accrue to the host government⁽³⁸⁾.

In other words, no political upheavals of any kind caused either by Mncs or their parent governments accompanied the nationalization measures (or the imposition of any arrangements of the above kind) in these countries.

Broadly speaking, observations which may support many of the conventional and neo-conventional perspectives are numerous. At the same time, the question of costs and benefits of FDI is probably contingent upon several factors some of which may be peculiar to factors in host countries (level of development, investment climate, past and present experience with FDI, etc.) and others seem to be associated with MNCs capability to adapt to the environment and requirements of these countries. Meanwhile, any generalization about the relationships between both developing host countries and MNCs may be oversimplified or it may be too complex to be explained or measured on only one base. Both have widely diversified objectives and ambitions, but the existence of mutual interests between these partners in investment is still regarded as the major factor to be considered. Or according to Hood and Young's argument it would be wrong to suggest that the effects of foreign investment are all beneficial to the investment partners⁽³⁹⁾.

2.2 The Benefits and Costs of FDI in Developing Countries

In the light of the preceding section, it may be established that FDI in developing countries has long been a subject of controversy. Some views are highly critical of FDI impact, while others are mostly supportive to FDI contributions in terms of the development of developing countries.

In the current section, an assessment of selected influences of FDI will generally be examined. In this connection, it has to be mentioned that the selection of FDI effects evaluated here is not either because of their great importance compared with other effects which have not been considered in the present theme, or are outside the researcher's field of interest. The selection is actually based on the current study limitations, some effects are not verifiable on an empirical basis, and the previous review of the alternative views on FDI impact and the comments made have also highlighted those types of effects which have not been presented in the present section.

As to the criteria for assessing, the effects of FDI, Young⁽⁴⁰⁾, Hood and Young⁽⁴¹⁾, and Biersteker⁽⁴²⁾ among others have suggested several criteria. It may be useful however, while discussing the effects of FDI to refer in a very precise way to some of the criteria suggested (taking into consideration the foregoing conceptual discussion developed in section 2.1).

1) Resource Transfer Effects:

These types of effects can be reviewed generally under the following three main headings (bearing in mind the previous arguments in section 2.1):

a) The provision of Foreign Capital: While the critical writers suggest that MNCs contribute to a net outflow of capital from developing countries by means such as failing to import/bring in much capital for investment, transferring profits and repatriating capital, etc., an opposite counterpart view considers MNCs because of their great capabilities have access to enormous financial resources and capital markets (internal and external) for investment. MNCs, therefore may make a contribution to filling the resource gap in the host economy between desired investment and local savings, in addition to other indirect provision of capital e.g. MNCs may mobilise local savings by offering attractive investment opportunities, stimulate the flow of official aid from their home country, etc⁽⁴³⁾.

On the other hand, the provision of benefits in this respect provided by MNCs may be reduced by various offsetting influences or be dependent upon certain factors for instance⁽⁴⁴⁾:

1. The size of capital brought in by MNCs.
2. The extent to which MNCs may borrow locally and divert local savings from other productive uses.
3. The size of reinvested profits vs. the repatriated capital and profits.

4. The degree of commitment and the type of investment projects. Foreign-owned affiliates, for example, generally reinvest higher percentages of after tax profits, spend more of their sales on R&D locally, pay a higher amount of corporate taxes etc. compared with some other form of investment⁽⁴⁵⁾. Capital-intensive projects may arguably provide more capital inflow than the labour-intensive investment.

In terms of the criteria relevant to measure/evaluate the influence of FDI in relation to capital provision, the following may be suggested:

- (1) Trends or annual inflow and outflow.
- (2) A comparison between total capital inflow (e.g. the amount of initial capital brought in, loans borrowed by MNCs from home or office overseas banks, etc.) and total capital outflow (e.g. remitted) profits/capital, remitted salaries etc.). This comparison will roughly indicate the net capital losses or gains of a host country.
- (3) Size of invested capital by MNCS compared with a country's GNP.
- (4) The annual borrowing by MNCS from local banks compared either with the domestic firms' loans or the total savings.
- (5) The size of reinvested capital and profits per annum in relation to the annual MNCs sales, and
- (6) The share of MNCs taxes paid to the government compared with the indigenous one in a certain sector etc.

In short, there are plenty of criteria which can significantly

be used in relation to the extent to which MNCs can contribute to filling the capital gap in a host state (MNCs must also be assessed in the light of the indigenous enterprises contributions as relevant to each case) .

(B) Technology Transfer.

Considering the previous debate concerning the role that can be played by MNCs in technology transfer, one would expect that technology would tend to play a crucial role in the development of developing countries. As demonstrated in Chapter One, it has been established that the technological lag of developing countries is a major obstacle in their growth process. In sum, the importance of technology is so obvious as to require little reiteration. It is, however, an awkward fact that most of the arguments are concerned with questions such as the extent, the appropriateness, the terms, the costs, etc. of the technology transferred by MNCs to the developing countries rather than with the role perse.

At the outset, Loehr and Powelson⁽⁴⁶⁾ have suggested that technology incorporates both the technical change which occurs when new machines and processes combining with other factors of production, raise the productivity of those factors and disembodied progress which refers to an entire set of potential forces and new porcesses promoting greater efficiency in the use of resources such as more highly skilled labour, reorganisation of plant layout,

improving accounting for inventories, etc.⁽⁴⁷⁾. Another definition suggested by Hood and Young⁽⁴⁸⁾ is "Technology represents knowledge incorporated into new processes, etc. which in turn must be capable of converting inputs into consumable outputs at competitive costs".

The introduction of new products, material inputs, scale of production, managerial inputs/know-how, labour skills, and investment requirements, etc. have been conceived with respect to technology components that may be transferred to the host countries⁽⁴⁹⁾.

Having considered the debate over the role that can be played by MNCs regarding technology transfer (as presented earlier), and the importance of technology as a major factor in developing countries' growth, there are other factors in transfer of technology which are important enough to warrant consideration. Some of these factors/issues are as follows:

(1) The cost of technology. In this respect, it has been argued that technology never comes cheap, it is not a "public good" which can be made freely available to all possible users. As long as its creation is risky, expensive, its utilization a source of income, etc. buyers must accept that innovators must necessarily appropriate substantial benefits if they are to innovate at all⁽⁵⁰⁾.

The absence of a free market in which a host country could buy knowledge, the marginal cost of developing an alternative technology (particularly the unique types) in the

developing countries, the fact that every new application of certain technology requires an adaptive engineering work/skilled workforce and experience, adequate industrial structure, etc - all of these considerations could lead to the conclusions that technology transfer faces a series of difficulties^{(51), (52)}. Taking into account that a developing country because of its lack of almost all the requirements for the introduction of new technologies, it could be argued that the costs entailed are usually higher in developing countries where the absorptive capacity/environments for new technology, etc. is weak.

In certain circumstances (e.g. simple industries, standard products, labour intensive activities) it has been argued that, the host country would do better to 'unbundle' the package which MNCs bring and to buy the technological element on its own. This in turn would provide cheaper technology, not under the control of MNCs and more amenable to local adaptation⁽⁵³⁾. Meanwhile, in more complex industries, the cost advantages of licensing technology is not obvious. Partly because some leading-edge technologies are not available simply on license, and the transfer may be less efficient, slower, less continuous under licensing, partly too a licensee may be subjected to severe restrictions on the use of technology transferred⁽⁵⁴⁾. In addition, the previously mentioned obstacles may face the licensee in developing countries particularly, even in the case of the developed

host countries, both licensees and licensors may also be subjected to any embargo measures imposed by the parent governments on selling/exporting technology as has been mentioned earlier. This means that the cost of technology if it is transferred - will be much higher or almost impossible to be bought at any price where there are embargo practices and trade sanctions.

Furthermore, Contractor⁽⁵⁵⁾ has argued that if technology were freely transferable as a public good where transfer of patented technology would involve no more than issuing permission to the licensee, in some cases (in the chemical and pharmaceutical industries) where the licensees were technologically capable and ready to proceed on their own with only a patent licence, this system would work in practice. On the other hand these are recorded instances of licensees failing to produce a viable product with a pure patent license and being forced to call on the licensors for further assistance in the shape of "know-how" or unpatented but proprietary information⁽⁵⁶⁾.

On the utility of trade marks, it has been argued that developing countries which accept in principle the value of patents as an impetus to innovation and technology transfer consider that the costs of foreign trademarks outweigh the benefits to their population. They contend that the trademarks which are foreign confer an advantage on the international firm in xenophilic societies and inhibit

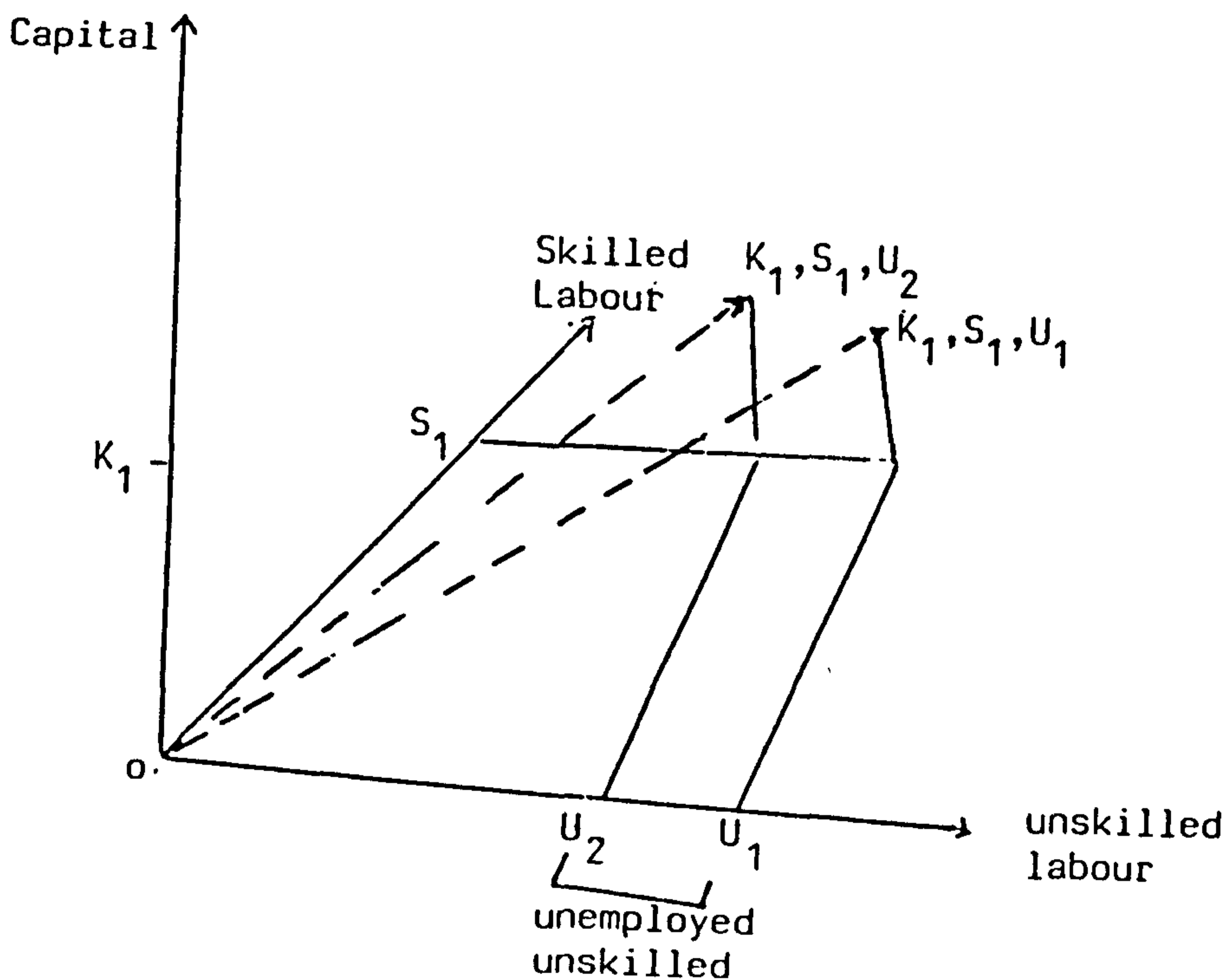
local competition. Meanwhile, licensee exports may be curtailed if they lack trademark rights outside their territory.

Eventually, Prasad⁽⁵⁸⁾ has argued that technology transfer has significant costs. The reasons for the higher costs are⁽⁵⁹⁾: (1) need for adaptation to local conditions, (2) resistance to foreign technology (in developed country firms and LDC governments), (3) large differences in infrastructure and (4) distance and thus higher communication and travel costs. Given the previously mentioned issues and the costs of innovation in the developed countries, etc. it could be established that the cost of transfer of technology is significantly greater for the developing countries and perhaps also for the MNCs themselves.

(2) Appropriateness of technology. The question of appropriateness of technology seems to be associated to a considerable degree with the costs of technology itself. Acquisition of technology - as stated before - is crucial to development, but the choice of technology involves several issues. Each developing state needs various types of technology, indigenous firms and institutions are far from responding to local needs, transfer of technology may involve enormous costs, etc. Even apart from the question of costs, social conditions and other factors in development may also impair a country's abilities to benefit from and diffuse certain types of technology which may be of great importance to the development.

Arguments over the appropriateness of imported technology for developing countries are endless. Hood and Young⁽⁶⁰⁾, have argued that much of the effectiveness of know-how and innovation will depend upon the transfer to host countries of appropriate technologies which should be relevant to the relative "factor endowments" or "factor proportion" in a given country. A useful demonstration by Hood and Young in this respect is presented in figure (B-3) below.

Figure (B-3) The factor proportion problem



Notes

- (1) K = capital, s = skilled labour, u = unskilled labour
- (2) K, s and u represent three factors of production
- (3) The ray from 0 to K_1, S_1, U represents the relative availability of the three factors of production during a particular period.

Source: N. Hood and S. Young, The Economics of Multi-national enterprise, op. cit., p. 187.

According to figure (B-3), it has been assumed that projects established should utilize K_1 , S_1 and U_1 . If, the projects use technologies which are inappropriate perhaps relying on K_1 and S_1 only unemployment among unskilled labour force will exist. Also, if the products use factor inputs in the combination shown by the ray from 0 to K_1 , S_1 , U_2 then U_1 , U_2 unskilled labour remains unemployed⁽⁶¹⁾.

In accordance with the above analysis, the following issues are likely to emerge: (a) if capital-intensive technologies are transferred to a developing country, it would be expected that severe job losses or a high scale of unemployment will result from deployment at such a high technological level. In addition, income inequalities may be intensified, local firms may be encouraged to operate similarly (capital-intensive) to cope with or because of "demonstration effect", and production may be directed towards the sophisticated commodities for which the technology has been developed⁽⁶²⁾.

(b) If labour-intensive production i.e. low level of technology is imported, it may respond to employment requirements of the developing countries, but the technological gap will inevitably be widened or perpetuated between these countries and the developed ones.

(c) If (a) and (b) are accepted, it has also been argued that in large areas of industry especially the complex sectors (making consumer durables and produces goods, etc) which it is vitally important should come in

the later stages of development, the issues of finding intermediate or appropriate technologies significantly differ in their labour usage, skill requirements, etc., have slid into policy oblivion.

Reasons for this may be that appropriate technology does not exist outside the traditional sectors, and its development - if possible - would be expensive. The difficulties may be involved with the direction of technology to suit different factor endowments, etc⁽⁶³⁾.

(d) It is also argued that labour saving on products will induce their cost and thereby increase demand for them, thus balancing out job losses. Additionally, economic activity and the totality of products, services, etc. consumed are neither static nor subject to extra-terrestrial determination. The sum total of human wants, needs, etc, is arguably infinite and the obsolescence of labour intensive products should only free labour for the provision of more different goods and services for which no capacity was previously available⁽⁶⁴⁾.

(E) If one accepts the proposition that a tight relation exists between technology as a factor in determining both micro and macro productivity and in consequence the overall welfare of an economy, it seems, however, that developing countries by keeping out new technology - whatever its level is - cannot easily make tangible progress in any sector they wish to promote, even in the most traditional/primitive activities, productivity/competitiveness

is probably contingent upon the level and intensity of technology deployed.

As to the question of appropriateness and the adaptability of MNCs to the particular labour surplus and other host state conditions, it has been argued that there are factors which may work against adaptation. Some of these factors have been stated earlier, while some other factors can be summarized as follows:⁽⁶⁵⁾

A) Distortion in the prices of goods and factors which may encourage the use of too much capital in relation to labour because the developing countries may operate policies which cheaper capital (capital subsidies, low interest rates), and raise labour costs (minimum wage laws for example). This in turn may encourage firms to economise on labour.

B) Small markets and monopoly advantages may reduce the incentive to find appropriate technologies to meet the needs of developing countries.

C) Production and marketing infrastructure, art, knowledge of marketing, and other associated marketing requirements are not available⁽⁶⁶⁾.

D) Product suitability rather than the appropriateness of factor use. In this connection, it has been argued that MNCs have been seen to be biased towards sophisticated, high technology products and heavily advertised, differentiated goods (e.g. hi-fi equipment, cosmetics, etc.) which may not be suitable for low income countries because they are only within the reach of a small elite or their

consumption may be at the expense of more essential items. Thus the difficulty may be in deciding what is and what is not beneficial in different circumstances.⁽⁶⁷⁾

E) As long as the labour-intensive processes require well-disciplined and skilled workforce, supervisory personnel, etc. and these may be scarce in LDCs, capital-intensive technologies may be chosen to reduce the skilled labour requirements. Additionally, when MNCs may obtain cheaper capital from international markets and this in turn could be associated with paying higher wage rates than the indigenous firms, further reasons exist for MNCs to transfer unadapted technology to the developing countries.

(3) The development of local technology. One major cause for concern about MNCs entry into developing countries is the need to develop local technological capabilities. At the same time it has been argued that developing countries are also concerned with the issues of dependency, types of technology, etc. These also may be associated with whether or not the MNCs are prepared to behave as model to generate new technology, implement R & D activities, transfer know-why as well as know-how in the developing countries. Moreover, the questions of appropriateness of technology, costs/requirements of transferring technology or developing it domestically through eg. education and other public sources etc. still also remain debatable.

Obviously the situation is rather complex. Meanwhile, Lall^{(68), (69)}, Prasad⁽⁷⁰⁾ and Loehr and Powelson⁽⁷¹⁾,

have suggested that:

- a) The promotion of local technology may not necessarily involve excluding MNCs. There are several simple industries where MNCs are not active in any case and developing countries can go a long way under their own steam. MNCs may be necessary in high technology industries where it simply does not make sense to set up indigenous R & D activities. Between the two extremes, MNCs may be persuaded into transferring a greater amount of R & D work than they would do without intervention.
- b) A policy of excluding MNCs may have detrimental effects on local know-how. Meanwhile, the protection of local enterprise from foreign competition may induce inefficiency in production.
- c) The protection of local learning may easily be carried out to the extent that local technologies become outdated and uncompetitive as well, especially as developing countries do not have the capabilities to keep up with changes in a technology they have assimilated and the imitation is also complex, risky and expensive.
- d) A careful blend of permitting MNCs entry, licensing and stimulation of local technological level may be of great help.
- e) It may be important for the developing countries to think of goods that had been previously imported for which the market has been proved. In such a situation, domestic firms may be willing to produce these goods (i.e. substitutes)

or a government may see the possibility of initiating a public enterprise either by protecting the activity by means of a high tariff or by wholly or partially excluding imports of the same goods. The production of such goods was often capital-intensive so that the comparative advantage lay with MNCs.

f) Increased transfer of technology through small-sized MNCs.

g) Increased transfer of technology through the Third World MNCs.

The above suggestions/views can be debated or still demand more illustration. But (F) and (G) may receive special attention from a developing country - with every thing static - since both small-sized MNCs and the Third World MNCs may possess not only technological advantages because their processes and products are relatively better adapted to local conditions, but they may also soften the attitudes towards the large MNCs.

Finally, with regard to the criteria for evaluating the effects of MNCs in relation to technology transfer, Young (72), and Biersteker⁽⁷³⁾, have suggested some criteria such as: (a) the introduction of new products and processes (which lags behind compared with introduction elsewhere), (b) terms of technology transfer, (c) capital intensity of production, operationalized as the ratio of machinery value to operatives, (d) existence of and nature of local R & D organisation and machines for incorporating R & D into

production.

(e) Number and quality of employees in relation to machinery value etc. Historical analysis of domestic-MNCs comparisons as relevant to each case, are required to provide a relatively significant assessment of MNCs effects in this connection.

(C) Management

Management or managerial input - as an element of technology - plays an important role in determining factor productivity and thereby affects both firms' competitiveness and overall productivity of the economy. As to the developing countries particularly, the shortage of experienced management and other associated implications - as illustrated earlier - are incorporated in a set of their problems which impair the development of their national economies. It is not surprising, however, that greater demand will probably be put on MNCs by developing countries to provide the scarce factors in management development required for their growth.

In general, there is a number of benefits can be gained by the developing countries from the provision of foreign management through FDI, e.g. the introduction of new management techniques, the implementation of training programmes, the development of entrepreneurial abilities, etc. Even the domestic enterprises can benefit from MNCs through e.g. demonstration effect/learning process or the

former may be encouraged to develop their managerial skills in order to compete with MNCs.

As stated on earlier occasions, there are major causes for concern about MNCs entry into developing countries in this connection. For example, competition, and the possibility of attracting the skilled managers from the indigenous firms because of higher wage rates paid by MNCs. The consequence however will be that the elimination of skilled manpower/managers from local firms may considerably influence their productivity or competitive position in the market. In addition, the question of appropriateness of training schemes, imported skills, etc, to the domestic conditions of the host country may arise again. This in turn could add other questions regarding the potential benefits that can be earned and the costs that may be incurred.

Regarding the assessment of MNCs' influences on management many criteria can be used, e.g. (a) number of training programmes for the managerial workforce every year, (b) costs of training per annum in relation to, for example, total wages or management (c) annual number of trainees in relation to the total number in the managerial workforce, (d) number of indigenous managers versus foreign managers in decision-making positions, (e) the annual turnover (replacement/displacement) of local versus foreign managers, (f) number of managers who have been sent abroad for training purposes etc. These examples have been

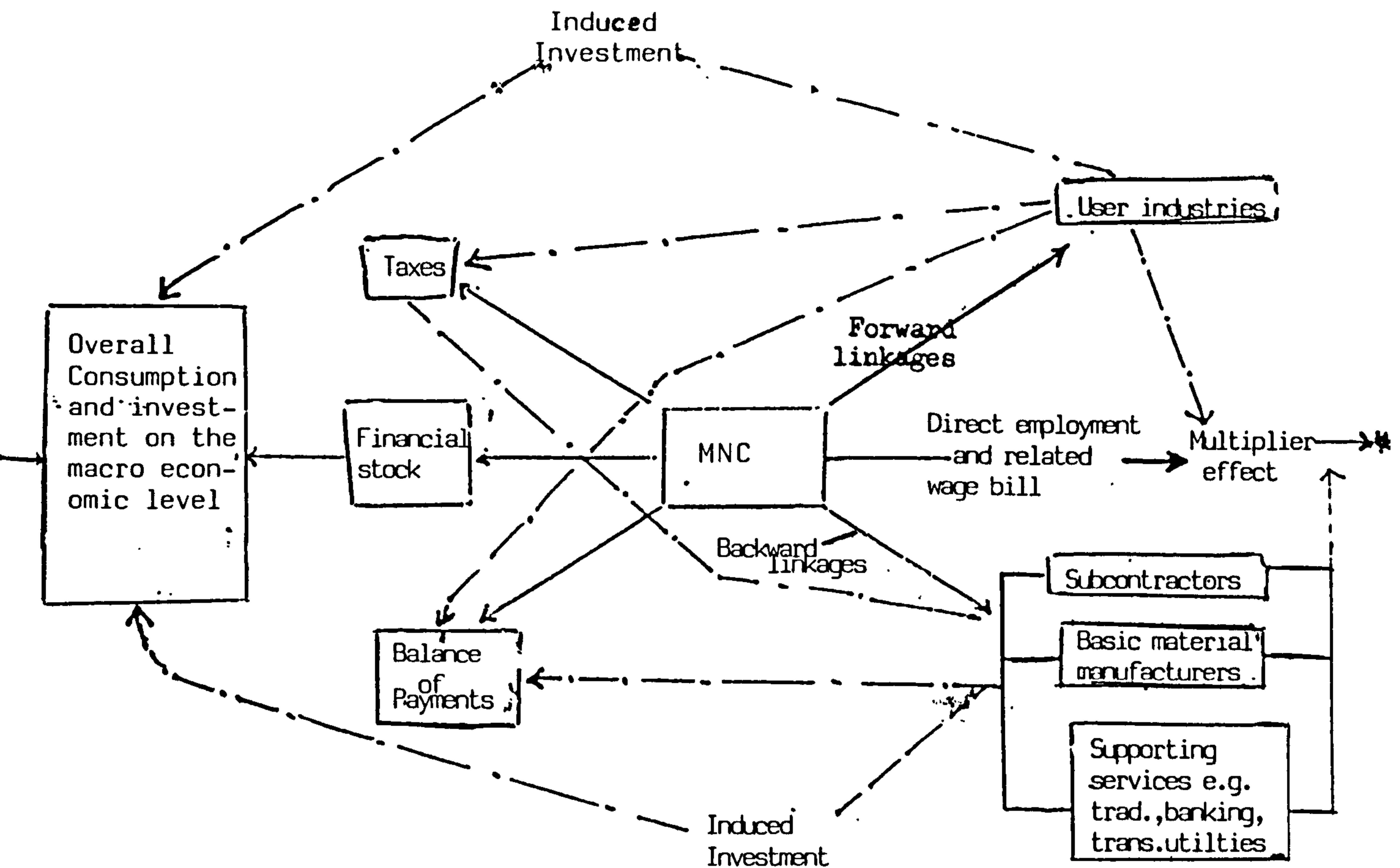
suggested quite apart from e.g. type of industries, managerial functions. The importance of monitoring the effectiveness of training programmes by a method which will neutralize or isolate their effects from other factors in overall firms' effectiveness, etc. As to the adverse effects, one of the simplest criteria which can be used is the number of management workforce who move by choice every year from the indigenous firms to the foreign ones.

(2) The Creation of Job Opportunities and Employment Gains

The creation of new jobs and other related gains is of basic importance to the developing countries and perhaps it is one of the most important objectives it is hoped will be realised through FDI in these countries. With regard to the effect of FDI/MNCs on employment in host countries, the previous discussion concerning the transfer of technology, as connected with employment issues should be kept in mind. In the meantime, the total employment effects of MNCs can be broken down into two types. The first, is the direct effect, while the second is the indirect one. Watanabe⁽⁷⁶⁾, has suggested (as shown in Figure B-4) that:

(a) The direct employment effect of MNCs i.e. the number and related wage bill of employment can be found in the enterprises' plants as one part of the total employment effect of MNCs may be determined by two factors (1) the labour-intensity (labour-output ratio) of its

Figure (B-4) Total employment effects of MNCs (+)



(+) Excluding temporary employment
 — Primary indirect effects
 - - - Secondary indirect effects

Source: S. Watanabe, Multinational enterprises and employment-oriented "appropriate" technologies in developing countries, in ILO, Employment effects of multinational enterprises in developing countries, Geneva, 1981, p. 42.

products and (2) the size of the existing market for these products (together with the firms ability to expand the market). Contrary to domestic enterprises, at least those without export activity, the international network of MNCs is an important specific factor for market expansion.

(b) The indirect effects. The major conceivable indirect effects can be depicted from figure (B-4), despite the difficulties of quantifying the indirect effects. The solid lines in the figure (B-4) indicate the primary indirect effects of MNCs operations outside their plants including the multiplier effects of the wage bill related to their direct employment, and the backward and forward linkages of the input/output type to the rest of the local economy. The dotted lines indicate the secondary indirect effects on the local economy that accrue as feedback from the primary effects.

On the macro-level although the enormous importance of MNCs impact on tax revenue, balance of payments, the supply of financial resources etc. (see the left-hand side of figure B-4) in a country it is very difficult to isolate and evaluate the indirect employment influences of changes in these variables attributable to the MNCs. Meanwhile, no one can ignore e.g. the fact that increased revenues in the hands of the government can permit it to create employment in any way it chooses.

As to the input-output linked indirect employment effects, on the one hand MNCs which are involved in export processing of imported material or assembly of consumers'

goods imported in the completely knocked down form. In such cases these indirect effects are almost limited to those arising from modest linkages with supporting activities such as transport, banking, etc. Also the same could be said about MNCs engaged in extraction of minerals for example, although they might stimulate the development of communications systems (e.g. railways) and create indirect employment there. Meanwhile, it must be noted that in spite of the limited effects in such cases the secondary employment effects can be important through the creation of new effective demand for local industries⁽⁷⁵⁾.

On the other hand, in cases such as⁽⁷⁶⁾: (1) the trading MNCs, - through their purchasing offices or commercial subcontracting of labour intensive products - can be accompanied by sizeable indirect employment effects despite the marginal direct employment which has been initially created, (2) basic or intermediate, materials manufacturing eg. chemical fertilizer production, export processing sector of the garment industry, etc. the indirect employment effects of MNCs via the user industries can be important as well, (3) MNCs' indirect employment effects can be constrained not only by the scale of their capacity to use the local inputs but also by the availability of these inputs, capacity of user industries, material suppliers and subcontractors, etc. and (4) most importantly both direct and indirect effect of MNCs on employment can be negative if MNCs' entry in a country takes the form of a takeover of an existing local firm for instance.

Additionally, as one would expect, the net effect of MNCs on employment in other local firms linked to them in the production chain (selling, buying from them) may either have favourable contribution to employment increase because the potential growth or encouragement of local firms to expand their activities or an adverse one in the case of merging or buying them by MNCs as in (4) above.

The adverse direct effects of MNCs on employment may take the form of attracting local firms' employees due to the MNCs higher wages. As to the indirect effects of MNCs on employment, a number of studies consider this effect from a variety of angles. In general, the displacement of existing employment can occur as a result of MNCs activities in one or more of the following types case⁽⁷⁷⁾:

1) The disappearance of a certain number of local enterprises as a result of competition from MNCs in the same production line (i.e. horizontal effect). In this connection, the greater economic and technological resources of MNCs may allow them to achieve market domination and some local firms can disappear as a result of competition. Additionally, a number of smaller indigenous firms can be taken over by MNCs or may have to accept subcontracting arrangements with larger enterprises.

2) The adoption by local companies of more capital-intensive production methods to enable them to compete with MNCs entering the market is another horizontal employment effect of MNCs through which existing employment may be displaced.

3) The control which MNCs may exert over production sectors furnishing inputs or using their outputs (i.e. vertical integration case). In both cases such integration in MNCs production process may result in the adoption by the supporting industries of technological and organizational transformations entailing an absolute or relative diminution of the number they employ.

4) In the labour market, MNCs activities may result in the disappearance of traditional occupations or the increase of unstable seasonal employment.

It could be argued that there is great potential for both the direct and indirect employment effects of MNCs in developing countries. At the same time, both the adverse and the favourable impact of MNCs on employment are contingent upon several factors (bearing in mind the preceding types of effects on micro and macro-economic levels) such as: (78), (79)

1) On the level of industry, the contribution of MNCs via-a-vis domestic firms depends on the monopolistic advantages of the former. In cases where modern technology is used or marketing/managerial and other high skilled workforce are employed etc. the domestic enterprises will find it difficult to compete with MNCs unless they can induce them to enter into joint ventures or pass on to them the benefits of the special MNCs advantage under licence. Or the domestic firms will disappear due to the competition.

- 2) Labour-intensive compared with capital-intensive investments (see also Hood and Young's model as demonstrated in figure B-3, the comments made and related to the issues of technology transfer) are different in their effects.
- 3) The import/buy locally factors. Very complex components requiring high technology will tend to be imported and vice-versa. MNCs from countries which have highly developed components suppliers or particular close ties between buyers and suppliers will have a greater degree of buying out and will tend to create more linkages also in the host country as compared with MNCs from areas where high degrees of vertical integration are the norm.
- 4) Market orientation factors. MNCs which have geared their operations to protected domestic markets in developing countries will be prepared to set up more linkages than MNCs which are geared mainly to exporting.
- 5) Local linkages also between MNCs and indigenous firms depend on the complexity of MNCs activities i.e. buying components locally depends on the relative sizes, capabilities and technologies, etc of the parties concerned.
- 6) The import/procure, and the make/buy decisions and linkages are also contingent upon local suppliers efficiency ie. technological, manpower skills, labour costs and other host countries' conditions will help to decide whether to take over a supplier by MNCs or to buy instead of importing the components required or to make these components by themselves (ie. MNCs).

7) The linkages between MNCs and domestic enterprises are relatively contingent on the inter-relationships between their activities.

8) The degree of vertical integration of a given industry in the developing countries-taking into account the factors in production and technological development and capabilities etc - has also a great influence. i.e. MNCs will probably try to persuade their original supplier to invest in a developing country or encourage a local firm to obtain the relevant license. Otherwise the MNCs will import from home or from their subsidiaries in different markets those items which will not normally be made by them.

g) Export-oriented, labour-intensive projects in the Free Trade Zones and similar manufacturing sites may open up considerable job opportunities (in addition to other benefits e.g. fostering import substitutions), but the indirect effects on employment of these forms of investment may be relatively small because of e.g. the weak sourcing and distribution links of MNCs in question with the local economies. Meanwhile, where product and market considerations limit the possibility of MNCs backward linkages to the host economy, the indirect employment potential of MNCs activities in free trade zones may thus be derived much more from the additional export earning they generate for the host country concerned. Moreover, government policies including the requirements of specified degree of local sourcing for MNCs may have increased the amount of

employment-related linkages which MNCs free trade zones export-oriented manufactures develop with the local economy.

10) As related to (9) the case of takeover of existing local enterprises are rare in the Free Zones operations/forms of investment. Therefore the creation of new jobs in addition to other indirect employment effects particularly the favourable ones may be a major contribution of such investment forms (with everything static).

11) The host government policy and technology choice are also important determinants of MNCs employment effects. At one extreme, the interaction of host government's policies in terms of trade, wages and labour legislations etc. may have a considerable influence on MNCs activities and growth including their direct and indirect employment performance/effects. At the other extreme, there are in addition to the foreign investment policies adopted: (a) policies aiming at greater duplication of MNCs with the economy (e.g. import-substitutions, export-oriented, sub-contracting policies, etc). and (b) government policies for employment and staff localisation which aim at the enlargement or employment opportunities of skilled nationals and representation of them in high level managerial positions/functions. With regard to the choice of technology, reference has been made to factors such as product/industry characteristics in relation to capital/labour intensity, MNCs scale of operations, availability of skilled manpower at every level, etc.

A very much associated effect of MNCs on employment is the contribution of these firms to the improvement of knowledge in host countries. This can be done through technology transfer and by training as partly described earlier. Bearing in mind the earlier arguments in this respect, the provision of access of local staff to managerial posts, vocational and the other types of training programmes for production and other companies' activities, etc. Can be affected (positively or negatively) by factors in host government policies, co-operation of MNCs with local institutions, MNCs personnel policies and so forth.

Finally, on the question of evaluating MNCs effects on employment, one can formulate some criteria from the foregoing discussion, in addition to those criteria which have been reported with regard to management (in 2-C). Young⁽⁸⁰⁾ has also suggested some criteria which are significant in this respect such as:

1. Level (and cost) of job creation (gross and net including the role of acquisitions, displacement of domestic employment).
2. Employment stability.
3. Skill, sex and qualification breakdown.
4. Locational concentration and concentration by size of enterprises.
5. Wage and salary levels.
6. Employment of local versus expatriate personnel.
7. Labour relations practices and performance.

Furthermore, there are also some ratios which can be used e.g. labour-capital ratio, labour-input ratio, the existence of R & D and training departments/units, etc. In the meantime most, if not all, types of effects must either be examined on a historical base if relevant or in comparison with the indigenous firms operating in the same production or activity of MNCs under investigation.

(3) Trade and Balance of Payments Effects

Bearing in mind the introductory arguments which have been presented in 2.1 and the considerations associated with the transfer of resources (capital inflow) as well as those related to the total effects of MNCs on employment, it could be argued that the more fundamental question relates not to the balance of payments consequences of FDI, but to the effects on the host country's trade and real income as well.

In other words, the impact of FDI on the supply of financial resources, income, balance of payments, government revenues, etc. in the host country may be significant but it is practically misleading to look at only one item e.g. capital inflows or the amount of wages paid by MNCs as one element of a country's value added, etc. and compare it with one item such as the size of capital repatriated or wage remittances for example. It is, however, important that one must look at the influences of FDI on all elements in a host country's balance of payments including consider-

ations such as export performance, import substitutions, transfer pricing effects and so forth.

In general, as shortages of foreign exchange may act as constraints on growth in just the same way that a deficiency of savings does, even if savings were adequate domestically, these could not be used to buy investment goods from abroad until the resources had been converted into foreign exchange. Thus, import substitution, increased foreign aid, greater FDI, etc. can be seen as means by which the foreign exchange bottleneck could be relieved in developing host countries.⁽⁸¹⁾

In theory, once a MNC has been given access for investment in a given host country (through e.g. establishing of a 100% foreign subsidiary, or 50/50 joint venture, etc), it is possible that more or less the initial capital inflow will benefit the balance of payments of the country concerned. Then when production starts, more benefits can be earned as a result of possible import substitutions, export earning and other benefits may be associated with trade and production in general. Contrary to these possible positive effects, it is also probable that MNCs may be depriving host countries of income and foreign exchange gains by practices such as transfer pricing, remittances of profits, capital and wages. This is in addition to a succession of other adverse indirect effects which have been outlined earlier.

Indeed, there is the prospect of increased exports and decreased imports through FDI, but the situation may be rather complex. On the one hand, in terms of export-oriented investment, it has been argued that in the case of natural resource investment, for example, the bulk of the output is typically exported from the host country contributing to net foreign exchange receipts on the trade account, whereas in manufacturing the output may be sold in the domestic market in partial substitution for imports⁽⁸²⁾. Even in the case of components assembly or manufacture etc., it is also important to take account of the raw materials and intermediate inputs which the MNCs may import in order to assess the net benefits/effects for the host country⁽⁸³⁾.

On the other hand, alternative import-substitution investment may have positive balance of payments effects in releasing valuable foreign exchange, but the net effects depend on the import propensity of MNCs in the host country⁽⁸⁴⁾.

Furthermore, it has also been argued that the income and foreign exchange impact of MNCs may become more obvious if export-oriented, rather than import-substitution activities/investments are considered, where a great deal of MNCs export activities particularly of the free trade and export processing zones, offshore variety, and international subcontracting etc. can add considerable growth of exports to the host countries. Such activities especially cannot be replaced by domestic firms acting on their own or could not be sustained by these firms alone⁽⁸⁵⁾.

At the same time, even with international subcontracting form of investments (where a MNC/buyer provides for example designs, marketing services, raw material in some instances etc. to local firms), free trade and export processing zones, etc. applying to a wide range of product choice and activities factors such as input costs or tariffs imposed by the importing countries etc. probably eliminate the gains potential (taking into account that the host country may also prohibit the sale of free zones production in domestic market).

Perhaps in some cases the export production of local enterprises which forms part of international subcontracting arrangements including MNCs trade houses or retailing firms which act as intermediaries between producers and sellers is more common in the textile and garment industries but it may not apply to the electric and electronics products⁽⁸⁶⁾

Undoubtedly, some developing countries which have relied heavily on MNCs have gained substantially by way of increased exports. At the same time many developing countries have not gained much export earnings via MNCs because of one or more of the following reasons⁽⁸⁷⁾:

(a) some developing countries have the wrong location, (b) some others do not have the requisite material, skills or infrastructure and so are too costly, (c) some are too unstable for MNCs to commit themselves to world-wide sourcing from them, and (d) some are too restrictive to permit efficient MNCs operation in world markets. For

reasons of this kind and despite the liberalization measures on export-oriented ventures enacted by some countries most of the dynamic export-oriented industries, semi-conductor assembly is shifting back to the industrial world because of automation where no other comparable activity based primarily on cheap labour has made an appearance.

Leaving the export-oriented investment aside, it seems also that most of the above problems could influence the import-substitutions investment in the developing countries. Factors in marketing, production inputs, investment climate, etc. in addition to the possibility that MNCs may import raw material and intermediate goods - as noted before - trade barriers and the choice of technological level and so forth will probably affect the gains potential of the developing countries from this type of investment. Even in the case of providing more attractive incentives to MNCs, the small number of MNCs and in consequence the small size of investment in this area may not boost the benefits of the developing host country substantially⁽⁸⁸⁾. In short, there are internal and external barriers (trade barriers) to both export and import-oriented investments.

Before forming any conclusion regarding the preceding issues, there are other issues relating to the balance of payments which are transfer pricing and the role of MNCs in exchange rate speculation. Only the former issues will be considered there as an important factor which may operate against the interest of the host country (and this does not

mean that the latter is less important). At the outset, the transfer price "is the price at which a transfer or sale of goods takes place within a firm, regardless of whether or not the firm spans different countries" such prices can be quite different from the prices that would obtain in arm's length transactions and therefore can be used to shift profits clandestinely between affiliates and the parent company or between affiliates themselves"⁽⁸⁹⁾.

Transfer pricing practices can also be used because there are difficulties in setting a fair price either when there is not a free market or when transactions between units of the same enterprise (ie. intra-firm transactions) are subject to one or more factors among the following^{(90),(91),(92)}

(a) inter-country differences in tariffs, taxes and subsidies, (b) currency risks, (c) restrictions enacted by host governments on the remission of profits, (d) political-social pressures which may stem from trade union pressures (for e.g. increased wages consequent on the level of declared profits) to political risk e.g. nationalization. In addition, adjustments in transfer prices may be important to advance various enterprise goals and for the enhancement of overall corporate profitability, as well as for positioning funds within an enterprise. Moreover, it is argued that transfer pricing may be used in terms of exercise of monopoly power. The MNCs may not wish to make above-normal profits in the host market either to avoid taxation of profit within the host market or to avoid the fair share argument

about the distribution of gains from FDI including the desire to maximize their share of profits in joint venture operations and minimize customs duties on imports in high tariff host countries⁽⁹³⁾.

The use of transfer pricing as a major means of making profits outside the actual host market may have a number of implications for the host-country's share of gains from FDI as MNCs set the prices of various imported inputs into the host market, so that the monopoly rents are appropriated by the MNCs outside the host market itself. These intra-firm transactions embrace raw materials, capital and similar equipment and know-how, etc. which are tied to MNCs in the host market. The use of transfer pricing in this way can shift returns between various parts of the MNC⁽⁹⁴⁾.

Also, because actual gross profits of the MNCs exceed the apparent gross profits within the host country, any host country taxation will be levied on the understated output contribution of foreign capital. It is the taxation of lower, apparent foreign profits rather than of actual MNCs profits that affects the re-distribution of gains from FDI. To the extent that actual returns are understated as a result of transfer pricing, the host country is limited in its re-distribution of these gains⁽⁹⁵⁾. The host country's share of incremental output via the taxation of foreign profits will be lower where the MNCs take part of its returns outside the host country via transfer pricing⁽⁹⁶⁾. Furthermore, not only will the balance of payments gains be

affected but also local shareholders may lose part of their legitimate profits, workers may lose if wage increases are curbed and customers may pay higher prices than necessary⁽⁹⁷⁾.

Despite the foregoing issues of transfer pricing policy it has been argued that the flurry of policy interest which had been aroused in the early 1970's had died down (at least in the Third World). Lall⁽⁹⁸⁾, in this connection, had pointed out that: recently interest has been aroused by the US proposal to impose unitary taxation (which means that MNCs are taxed on a portion of their worldwide profits without reference to the profit gains in a particular state) on foreign MNCs. These factors which made Third World countries seek MNCs investment more eagerly also made them more willing to accept the potential abuse of transfer pricing as a necessary cost of having MNCs. All possible regulations which could be applied to transfer prices were cumbersome and possibly unfair to MNCs (such as unitary taxation). Thus an otherwise welcoming posture to MNC entry could be outweighed by strict policy of transfer pricing control. Meanwhile, some developing countries which had adopted very liberal policies on MNCs with no regulation on transfer pricing and relatively low tax rates did not seem to suffer from the problem. But in general, Third World countries' desire to attract MNCs in consequence caused them gradually to downgrade the priority they had once attached to transfer pricing; this does not imply that a transfer pricing problem does not exist.

Finally, taking into account the concept of comparative advantages in international trade and the factors in developing countries' overall characteristics, it can be concluded in the light of the preceding discussion of trade and balance of payments effects, that MNCs could yield some definite benefits to host countries which adopted adequate investment policies, enjoyed a hospitable investment and marketing climate, directed MNCs towards areas of investment and marketing climate, directed MNCs towards areas of investment where they could operate in relatively competitive conditions, etc. Meanwhile, the costs may be enormous partly because of absence of the previous conditions, partly too because of the possible practices of transfer pricing by MNCs.

2.3 Empirical Evidence of FDI impact in developing countries

This section highlights briefly some of the empirical evidence that is presently available concerning FDI impact in developing countries. Taking into account the main arguments for the alternative views and criteria which have been summed up in the previous sections, the sequence of presentation is as follows:

1. Foreign Capital Flows. As can be seen from table (B-28) and graph (B-3) the annual FDI flows to developing countries grew at a fairly rapid pace over the last decade 1971/81 to some \$15 billion in 1981 despite the "break-in" the trend in 1973/75 (due to abnormally high oil-disinvestment

Table (B-28) Net Direct Investment from DAC Countries to Developing Countries, 1971-81*

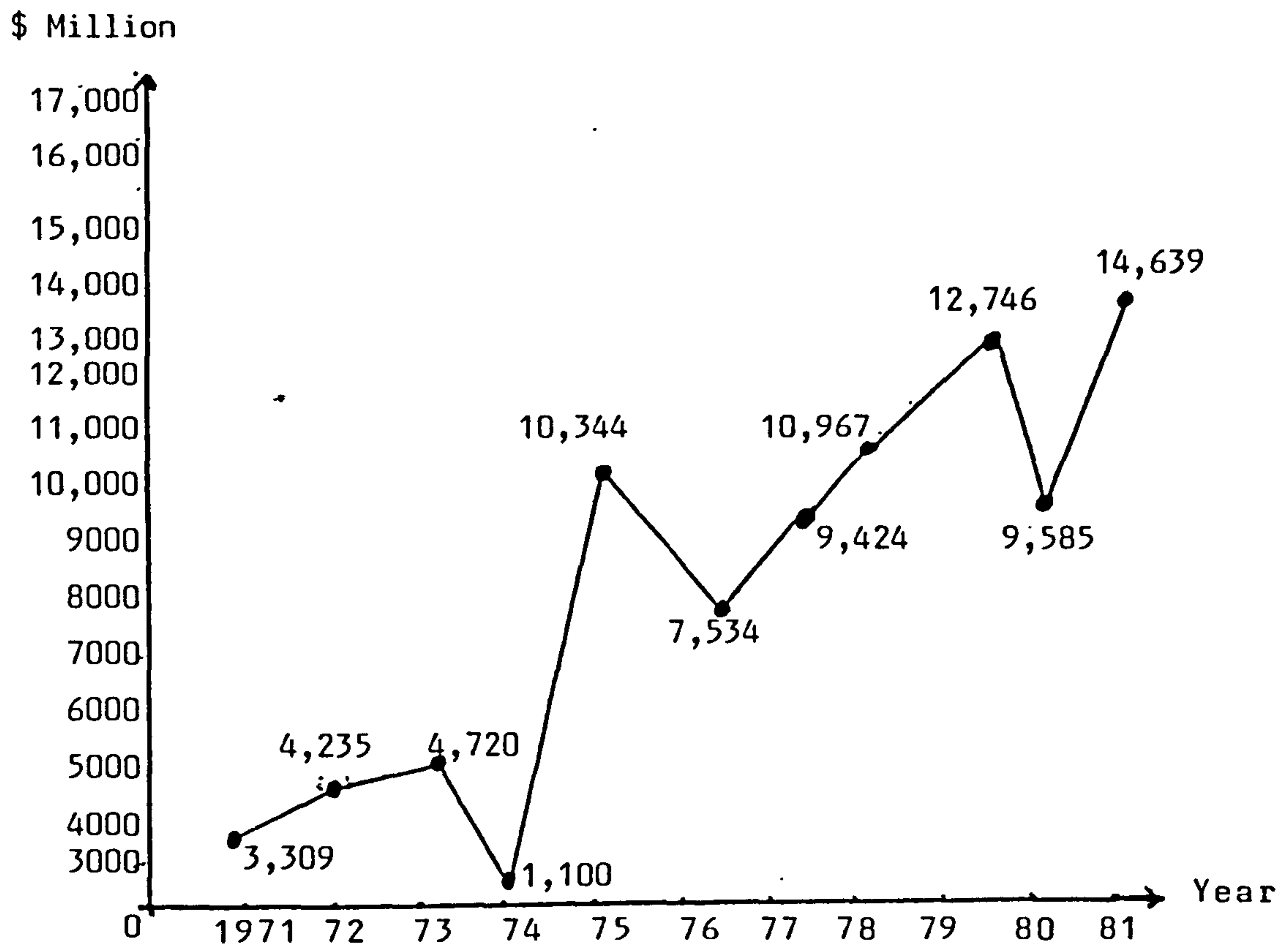
Value \$M

DAC Country	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Australia	48	102	104	117	48	75	84	68	113	136	159
Austria	-	4	5	8	7	33	18	20	13	20	32
Belgium	29	58	48	50	69	236	70	138	254	198	123
Canada	76	176	125	193	293	253	360	558	-100	400	700
Denmark	25	10	16	26	30	30	-	77	66	79	66
Finland	1	1	X	X	3	1	2	6	15	26	17
France	170	231	287	239	274	245	265	413	681	900	1137
Germany	358	601	787	701	816	765	846	1025	818	1579	1352
Italy	214	280	246	100	150	213	162	71	455	316	132
Japan	222	204	1301	705	223	1084	724	1318	691	906	2426
Netherlands	130	321	89	242	229	245	486	444	167	135	354
New Zealand	-	-2	1	3	1	1	9	11	7	24	15
Norway	11	7	14	15	17	43	16	30	8	9	8
Sweden	40	42	22	49	82	125	126	115	127	90	86
Switzerland	66	73	81	128	208	226	211	174	416	353	340
U.K. (1)	233	391	699	695	653	838	1179	820	1029	1047	1217
U.S.A.	1686	1736	895	-2172	7241	3119	4866	5619	7986	3367	6475
Total DAC	3309	4235	4720	1100	10344	7534	9424	10907	10746	9585	14639

(1) Excluding investment in the petroleum sector.

Source: OECD, Investing in developing countries, Paris, 1983, table (1), p.17.

Graph (B-3) The trends of net direct investment flows from DAC countries to developing countries, 1971-1981.



Source: Based on table (B-28)

in 1973 and 1974 particularly by U.S. firms in the Middle East and heavy reinvestment by the oil industry in 1975 in other regions of the Third World.) Also, figures for 1980 (\$10 billion) indicate another "break" probably due to several takeovers of oil assets in that year⁽⁹⁹⁾. Moreover, from 1971 to 1981, the average annual growth rate of net FDI flows was 14%. It may also be useful to mention that the U.S.'s investment flow in 1979-81 was 48.2%. Next was Japan's share 10.9% with a 22% annual growth rate, then Germany's share 10.1% with annual growth rate 13%, and finally U.K.'s share 8.9% with annual growth rate 15% over the same period.⁽¹⁰⁰⁾

Furthermore, table (B-29) shows the net receipts of geographically allocable DAC FDI 1978-1981 by developing country groups and selected recipients. According to table (B-29), it is clear that the NICs accounted for more than half of the total DAC FDI flows, about 61% in 1979 and 44% in 1981. MICS were the second largest group of recipients (31% in 1979 and 27% in 1981) but their receipts are dominated by off-shore banking centres, LICs captured only a marginal portion (about 4% in 1981) of FDI. As to the OPEC countries they recorded a temporary drop in their FDI receipts in 1979 due to the developments in Iran and disinvestments in Indonesia and Nigeria⁽¹⁰¹⁾.

Above all, it may be useful as relevant to the present theme to report that:⁽¹⁰²⁾ (a) in 1979-81 the net FDI receipts of the host developing countries as a

Table (B-29) Net receipts of geographically allocable DAC foreign direct investment 1978 to 1981 (by developing country groups and selected recipients)

(Value in \$ M)				
Group/Recipient	1978	1979	1980	1981
LICs⁽¹⁾				
of which:				
Egypt	418	434	519	540
India	22	38	27	120
Niger	18	49	55	72
Somalia	X	0	0	X
Zaire	98	144	111	67
MICs⁽²⁾				
of which:				
Colombia	79	96	113	193
Peru	66	326	98	231
Philippines	144	330	125	110
Thailand	38	38	217	218
Off-Shore Banking Centres⁽³⁾				
NICs⁽⁴⁾				
of which:				
Argentina	310	667	880	638
Brazil	1738	1533	788	1256
Hong Kong	252	342	363	964
Korea	184	1	-208	260
Mexico	495	1048	2001	1154
Spain	527	1233	486	415
OPEC				
of which:				
Gabon	9	20	25	27
Indonesia	418	-383	280	2580
Iran	909	164	81	24
Nigeria	164	-49	92	406
S. Arabia	54	73	27	42
Venezuela	184	131	99	296
Total Allocated	7788	8934	9217	13540

Notes: (1) Low-income countries, (2) Middle-income countries

(3) Bahamas, Bermuda, Cayman Is., Liberia, Netherlands, Antilles and Panama.

(4) Newly-industrializing countries.

Source: Ibid., Table (4), p. 23.

percentage of total bilateral financial receipts was 18% (an average), the average of net FDI receipts of developing countries as a percentage of non-concessional bilateral financial receipts was 27%.

b) The distribution of the estimated stock of FDI among developing host countries at the end of 1981 accounted for \$137.2 billion distributed as follows: 7% in LIC, 36% in MICs, 41% in NICs and 16% OPEC members. Accordingly, the data shows also a clear preponderance of the NICs, while the LICs hold only a small portion of the total stock.

c) A breakdown of DAC FDI by major sectors of activity and recent flows and accumulated stocks in various years shows the following^(*):

1. A high share of German and U.S. investments in manufacturing and high shares of petroleum investment from Japan and France. The share of U.K. stock in the manufacturing sector is also higher than the share of the U.S. (46% vs 39% of FDI allocated).

2. For all the five major DAC, manufacturing accounts for the largest share of both flows and stock with a bigger share in new flows (flows 47%, stocks 42% of the total FDI allocated). Approximately the same rising trend is discernible for FDI in other sectors mainly services activities including trade, finance and insurance. In contrast, the agriculture, petroleum and gas, mineral mining, including coal, show a decreasing trend.

(*) DAC in this case include France, Germany, Japan, U.K. and U.S.

As data from other sources confirm - in some cases - the above trends of FDI distribution and its shares of developed nations⁽¹⁰³⁾, it is also important to note that according to the UN report in 1982 the total financial resources flows to developing countries amounted to \$80.04 billion in 1978 while in 1970 it was \$19.52 billion (including FDI, official development assistance, multi-national non-concessional, bilateral non-concessional, bank lending, private export credits, official export credits, OPEC non-concessional and other types of resources)⁽¹⁰⁴⁾.

Before reaching any conclusion on the above information it may be useful to look at some additional data concerning the outflow of FDI from developing countries, reinvestment earning, and income payments in these countries as shown in table (B-30).

Table (B-30) Outflow of FDI, reinvestment earnings and income payments in developing countries
(value in \$million)

	Years					
	1973/75	1976/78	1975	1976	1974	1978
	19					
Outflow of FDI from all countries (1)	150.3	508.4				
Reinvestment earnings (2)			3,830	1,963		
Income payments (3)					-10,776	-16,691

Sources: (1) U.N. salient features and trends in direct foreign investment, 1982.

(2) U.N. transnational corporation in World Development Re-examined, 1978, (reinvestment earnings made by Belgium, Canada, W.Germany, Italy, Sweden, U.S. and Australia).

(3) U.N. (the Centre on Transnational Corporation).

All figures quoted from: J. Fayerweather, International business strategy and Administration, op.cit., tables A/9, A/10 and A/11, pp. 21-24.

It is interesting to note that the outflow of FDI from developing countries is a relatively new feature of the picture despite the fact that the enormous amount of FDI outflow belonged to the oil rich nations⁽¹⁰⁵⁾. Also, the most notable fact is that about 40% of FDI growth in 1975 and 1976 was by reinvested profits.⁽¹⁰⁶⁾

Meanwhile, Table (B-27) in the earlier section and a comparison between net receipts of fDI by some developing countries and their GNP in 1980 as portrayed in table (B-31) reveal that FDI inflow accounts for a very small portion (perhaps it has no significance) in relation to GNP.

Table (B-31) - Net receipts of FDI and GNP in selected developing countries - 1980

(Value in \$M)			
Country	(1) Net Receipts of FDI	(2) GNP	(1) ÷ (2)
Mexico	2,001	144,000	0.014
Brazil	788	243,240	0.003
Zaire	111	6,340	0.018
Venezuela	99	54,220	0.002
Nigeria	92	85,510	0.001
Hong Kong	363	21,500	0.017
India	55	159,430	0.003
Thailand	217	31,140	0.007
Peru	98	16,470	0.006
Colombia	113	31,570	0.004
	3937	793,420	0.0723

Source:. As to GNP: World Bank Atlas, 1982, loc. cit.
. Net receipts quoted from table (B-29).

At the same time, payments of royalties and fees by some developing countries constitute also a small portion of their exports. In 1978 for example, payments of royalties and fees paid by Brazil totalled \$ 604 million i.e. about 4.41% of its total exports, Israel's payments were \$4 million (about 0.82% of the total exports), Costa Rica's total payment of royalties and fees accounted; also for about 0.40% of its total exports while India's payments were also about 0.81% of its total exports in 1978⁽¹⁰⁷⁾.

It has been mentioned earlier in the context of comments made on critical opinions that the outflow in the form of repatriated profits exceeded the inflow of capital in some Latin American countries in 1974. Also a case study on Nigeria using different techniques to estimate the impact of MNCs on capital movement showed that MNCs contribute to a net inflow and outflow of capital in general. Meanwhile, the use of different estimation methods, demonstrate that in some of the firms surveyed the outflow of capital exceeds the net inflow and vice versa i.e. in other firms the inflow exceeds the outflow of capital⁽¹⁰⁸⁾. Although this evidence is almost of an anecdotal nature it could be argued that the influence of capital flows may not only differ from one firm to another perhaps because of differences in the nature of products and activities, etc. of different firms, but it is also possible that the degree of impact of capital flows on the macro-level is not the same as the micro one, because e.g. factors in govern-

ment policies towards FDI, or in the entire economy, etc. could enhance or eliminate such impact.

Based on the above limited and uncompleted statistical coverage of FDI inflows and outflows and taking into account that governments of host developing countries do not necessarily expect MNCs to provide capital throughout the entire economy or to give without gains for in addition to the considerations which have been partly outlined earlier (upon which the impact of FDI is dependent), it could be concluded despite the lack of FDI costs that:-

1. Despite the "break", which has occurred, developing countries tend to continue to rely on FDI as a source of financial flows. The growth trend of FDI flows over the past decade is encouraging and more favourable.
2. The reinvested profits can arguably be considered as a source of foreign exchange if these profits have been transmitted from subsidiaries other than those which exist in a given developing country. If not, in this case the reinvested profits can be seen as an instrument of growth and expansion of FDI contributions to the host state or at least it will eliminate the outflow of funds.
3. It could be argued that the more rationally governments implement their investment policies and take advantage of their special economic features and needs, etc. the more benefits they will gain. In other words, it has been argued earlier that in some cases (Mexico for example) foreign-owned companies in developing countries generally re-invest higher percentages of their after-tax profits

than do locally owned firms, they are also more productive and profitable and bring more and new capital, in addition to which they may not absorb scarce local savings^{(109),(110)}.

4. The available evidence suggests that a substantial part of FDI flows is in the new industrializing countries (NICs) rather than the less developing ones since the former tend to possess several advantages in factors in the economic and marketing etc. environment compared with the latter. Thus, the argument made earlier concerning the influence of e.g. inadequate infrastructure and skills, the need for the requisite materials, etc. on the direction and location of MNCs investment still remain. ie. Factors of these kind have probably affected the inflow of FDI in LDCs (see also table B-27 and the related comments).

5. Although a relatively high portion of MNCs investment is allocated in areas of investment such as manufacturing, services, etc., rather than the extraction industries, it is hard to conclude whether or not an exploitative relationship does exist between MNCs and the host country.

6. In terms of capital formation, it could be argued that the provision of MNCs' home governments aid (financial and non-financial), or any type of assistance which may exclusively aim at facilitating their firms investment in developing countries, and so forth may make the formation of capital possible. Moreover, MNCs can themselves if needed - build communication and transportation systems to ease the implementation of their activities. Above all,

the number and value of plants and equipment which can be established/or brought in by MNCs (and other related projects/services) in a developing host country are also phases of capital formation i.e. they can increase the formation of capital in the country concerned.

2. Technology Transfer. It has been argued that the relative contribution of MNCs as compared to the domestic firms depends on the monopolistic advantages of the former. Technological advantage of MNCs - under certain conditions - has two-fold impact. It may fill the technological gap or the missing factor in host developing countries' growth, or it may adversely influence both macro and micro economic progress.

With the preceding arguments in mind, empirical evidence suggests that:

1) As to the extent of technology transfer, some evidence from Nigeria in the early 1970's, suggested that for most subsidiaries of foreign companies, R & D is performed in the parent company⁽¹¹¹⁾. Concerning the same country, another study suggested that in a Nigerian state-owned and controlled establishment (in the petroleum-refining industry), foreign management and technical advisors are under contract for a specified and limited period of time to provide services and train their replacement. Such contracts are oriented towards developing the national technical capacities by MNCs have contributed to the transfer

of skills and knowledge⁽¹¹²⁾. But it has been argued that it is not clear from the available evidence that MNCs have always provided the most suitable mechanism⁽¹¹³⁾ for this purpose.

In other case studies (five cases) concerning the location, the scope of the foreign R&D activities, etc. of 34 American, 16 European and 6 Japanese firms, the evidence suggests that⁽¹¹⁴⁾: (a) there is considerable R & D activity by MNCs in locations other than their own parent countries. Of the 34 U.S. firms, 31 reported having some R & D activities abroad (it was also reported that about 106 active foreign R & D groups have been identified by the researchers). The 16 European multinationals interviewed have 100 distinct foreign R & D activities. However, it has been pointed out that the foreign R & D activities of the firms surveyed were smaller in size and more restricted in scope than were R & D activities pursued at home; (b) despite the foreign locations chosen by MNCs surveyed for their R & D were dominated by the developed nations, more than 30 foreign developing countries hosted R & D activities of the firms interviewed (mainly in Mexico, Brazil and India, rather than e.g. S. Africa, Taiwan, Hong Kong, Egypt⁽¹¹⁵⁾).

(c) Perhaps one of the most interesting results was that most R & D being performed abroad by MNCs is primarily addressed to applied research and development. Moreover, the market orientation of a firm has strongly influenced

its decision to implement R & D abroad.

(e) With regard to the diffusion of R & D capabilities to local scientific and technical communities, it has been pointed out that⁽¹¹⁶⁾: 1. Almost all the firms surveyed employed nearly 100% host-countries nationals as professionals on their foreign R & D staffs, and many firms had also local nationals only in the first-level R & D positions. 2. Some training of personnel did take place and the training programmes added substantially to application skills. 3. Turnover among foreign R & D professionals was quite low and 4. Evidence of technical upgrading of local suppliers and customers was also found in e.g. active participation in market development, training programmes, technical assistance missions, improving local quality control skills and local warehousing and distribution systems. This was in addition to support for local universities and government agencies.

Finally, in cases where modern technology has been partly or fully absorbed by local firms through e.g. licensing, copying or buying the technological elements required as in the case of Korea, Taiwan and Hong Kong for example it has been reported that the large part of the industrial success or the initial spurt of these countries was based upon labour-intensive activities in mature technologies which are not the main stamping grounds of MNCs⁽¹¹⁷⁾. Thus, in the more complex areas of industries the cost advantages of licensing for example may not be obvious for the reasons highlighted earlier.

Nevertheless, the channels of technology transfer all have different strengths and limitations. In other words, it is possible that transfer of technology is partly dependent upon the type or investment forms adopted by the host country. Empirical evidence in this connection suggests that most of R & D projects in 24 U.S. multinationals were undertaken by foreign subsidiaries rather than by licensing, exports, and joint venture⁽¹¹⁸⁾. Examples of this kind may demonstrate that the developing host states should think about the capacity of alternative channels of technology transfer.

2) The appropriateness of transferred technology. In this respect, Lall⁽¹¹⁹⁾ has reported that the premise that MNCs transfer unadapted technologies from developed to developing countries is unfounded. Product ranges of MNCs in developing countries are very different from those in the developed ones. i.e. MNCs do not introduce the same products made to same specifications in every country in which they operate where local market conditions require adaptations (e.g. storage properties of medicine, ruggedness of vehicles, etc.), such adaptations are made.

But the study of Hill and Still⁽¹²⁰⁾ as mentioned on an earlier occasion provides evidence to suggest that: (a) more than half the products that MNCs sell in LDCs originated in the parent companies home markets (1200 products out of 2,200 products sold by 61 subsidiaries in 22 LDCs had originated in U.S. and U.K.).

(b) The 174 products surveyed out 1,200 transferred (mostly consumer packaged) to LDCs have been modified, except for 15 products which were not changed at all. In other words, the results showed that nearly seven changes out of ten (e.g. labelling brand name, products features, package size, usage instructions etc.) have been modified to be marketing-oriented.

On the other hand, Turner⁽¹²¹⁾, Helleiner⁽¹²²⁾ as well as Biersteker⁽¹²³⁾, have found that no considerable adaptation of production processes has taken place in Nigeria. Manufacturing technology has been imported from abroad without major modifications. Little adaptation was also found in the establishment of Nigeria's first petroleum refinery.

Furthermore, Behrman and Fischer's study⁽¹²⁴⁾, demonstrated that the extent to which significant adaptations to process machinery or product designs were made, were typically a function of market size rather than local resource endowments. No firm appeared willing to make a major change in its production processes to accommodate different foreign resource factor endowments although there was some willingness to modify a production system so as to build in more labour-intensive activities at the periphery.

In respect of factor intensity of investment, empirical evidence suggests that petroleum, mining and smelting sectors are generally capital-intensive (in addition to manufacturing sector which is of a capital-intensive nature) and 45% of the stock of FDI in developing countries

in the early 1970's was allocated to these types of industries⁽¹²⁵⁾. But in the light of the statistical data presented earlier, it has been demonstrated that a rising trend is discernible for FDI in the service sectors e.g. trade, insurance etc. while petroleum and mineral mining for example show a decreasing trend in the early 1980's.

Meanwhile, a study of Table (B-32) shows the shares (in %) of the subsidiaries of the U.S. and non-U.S. multinationals in developing countries and the rankings of the industries according to the importance of such shares. It also gives the ranking of the same industries according to different measures of capital intensity. It has been argued that in the absence of large scale factor intensity reversals^{*}, one would expect an inverse correlation between the rankings according to the capital intensity and the shares of MNCs in developing countries. Otherwise stated, the higher the capital intensity of the industry concerned, the lower would be the share of the subsidiaries located in the host developing countries⁽¹²⁶⁾.

Additionally, other evidence suggests that a substantial part of MNCs investment in the apparently capital-scare developing countries is in capital-intensive sectors, and the factor proportions variable is only one - albeit

* "Factor intensity reversals" by which the rankings of industries according to their factor intensities can vary between countries (see the reference noted).

an important one - of the variables affecting the decisions and the plans of MNCs investing in developing countries⁽¹²⁸⁾.

Table (B-32) Capital intensity of multinational subsidiaries of US and non-US multinationals in each industry and percentages of subsidiaries in less developed countries, by industry.

Principal Industry of subsidiary	The Capital Intensity of the industry measured by the stock concept	Ranking according to:		
		% share of the subsidiaries of the U.S. firms in LDCs (1.1.68)	% share of the subsidiaries of the non-US firms in the LDCs (1.1.71)	The Capital intensity of the industry measured by the flow concept
Chemicals	1	4 (46%)	4 (42%)	1
Petroleum refining	2	9 (35%)	7 (39%)	2
Food & Tobacco	4	5 (44%)	4 (39%)	3
Precision Goods	9	11 (26%)	10 (16%)	4
Transport equipment	7	6 (42%)	2 (62%)	5
Primary metals	3	8 (37%)	6 (39%)	6
Electrical equipment	10	7 (41%)	5 (41%)	7
Fabricated metals & non electrical machinery	8	10 (32%)	8 (38%)	8
Wood, furniture & paper	5	2 (52%)	9 (27%)	9
Rubber & tyres	6	1 (59%)	3 (50%)	10
Textiles & apparel	11	3 (47%)	11 (69%)	11

Sources:

- (1) The percentages shares of the subsidiaries of MNCs in developing countries are from L. Franko. *Multinational enterprise, the international division of labour in manufactures and developing countries.*
- (2) The capital intensity rankings according to the "stock-concept" are estimated on the basis of the relevant data in G. Hufbauer. "The impact of National Characteristics and Technology on the commodity composition of trade in manufactured goods" in R. Vernon(ed) *The technology of factor in international trade*".
- (3) The capital intensity ranking according to the "flow concept" are from H. Lary "imports of manufactures from less developed countries".

All (1), (2) and (3) in P.K. Tharakan, *Multinational companies and a new international division of labour, op.cit., p. 92.*

Among the reasons behind the previous results are briefly as follows: the policies followed by a number of developing countries encourage investment in capital-intensive sectors. As the structure of protection in developing countries is one of the important inducements for FDI, thus to the extent that such tariff and non-tariff protection also covers capital-intensive industries, MNCs investments will tend to be attracted to those sectors too. In addition, the structure of incentives, particularly for accelerated depreciation allowances, low taxes on return to capital and tax duty exemptions on the imports of capital equipment, etc. favour the use of capital-intensive techniques⁽¹²⁷⁾. Other reasons suggest that the generally high capital intensity of MNCs operations in developing countries stems from the deliberate use by MNCs of their advantage in the "ownership endowment" in technology, marketing skills, etc. in order to derive monopoly benefits^{(128), (129)}.

3) Regarding the cost of technology, it has been pointed out that the cost of technology is high and there are many problems which make it difficult to price technology. The absence of a free market is not the only problem, but also the level of royalties and licence fees paid by host countries cannot be adjudged empirically because of the lack of any objective method of pricing technology and most of royalty payments can be settled through bargaining. In consequence the agreement which could be reached will depend

a great deal on the relative negotiating strengths of the parties involved⁽¹³⁰⁾. Thus previous examples concerning the royalty and fee payments by some developing countries (which shows in some instances that these payments accounted for a small portion of the exports of some countries while in others it was relatively high) may be misleading or oversimplified .

Finally, while the preceding evidence tends to be somewhat conflicting, it has suggested that (a) MNCs make efforts to transfer technology either by locating their R & D activities in developing countries or recruiting local nationals training programmes etc. (b) there are efforts made by some MNCs to adapt their products, technology and production techniques to local conditions, (c) in most cases MNCs tend to use their ownership-specific factors in developing countries particularly in capital-intensive technologies, and (d) in general it is difficult to accept a wholly definite conclusion as to whether the contribution of MNCs to the developing countries in terms of technology transfer is contingent upon the MNCs ownership-specific factors only or depend on the factor proportions problems and policies of the host developing countries.

3. Displacement of Indigenous Enterprise & Market Power

As already stated the disappearance of a certain number of local firms may be a result of competition from MNCs. An illustrative example of this nature was found

in Brazil. Between 1970 and 1975 more than 200 local enterprises in the animal food industry disappeared as the result of competition from MNCs and large enterprises. A significant number of small enterprises have also been transformed in this process into sales outlets for the products of the large enterprises while in other cases a number of firms have been taken over by MNCs⁽¹³¹⁾. In Nigeria, although the empirical evidence demonstrates that a little firm displacement and only a limited amount of market displacement (cases in which MNCs retarded the growth of local firms by capturing an increasing share of the local market for comparable products) have taken place, both artisan and pre-emptive displacement have been widespread⁽¹³²⁾.

Meanwhile, despite the widespread concern over the adverse impact of market domination by MNCs in host countries, Negandhi and Bahiga's study⁽¹³³⁾ (of American, European and Japanese multinationals operating in Far East and Latin American countries) did not indicate a significant relationship between the market share of the MNCs and the nature of conflicts in the host countries surveyed^(*). Of the six countries studied only in Malaysia and to some extent in Brazil did the MNCs market share have some impact on the type of problems faced by the government in terms of e.g. pricing, production control, etc. but the lack of relationship does not imply that developing countries are unconcerned about issues of economic domination by MNCs. The market

(*) Examples of areas of conflict have been highlighted earlier in the context of Chapter (1) in detail.

conditions (degree of competitiveness) faced by MNCs had in this case a significant relationship with the nature of conflict. Overall, firms facing a seller's market or a moderately competitive market encountered a greater number of negotiational (terms of contract between the government and MNCs) and policy (pricing and production control) conflicts than firms facing a highly competitive markets.

Finally, Mexico provides an example of MNCs strong position in some economic activities. In 1970 the share of MNCs in production of durable consumer goods was 62% and between 30-36% of non-durable consumer goods, producer goods and intermediate goods. Between 1965 - 1975 industries such as textiles, leather, machinery, electrical goods, etc. were also dominated by MNCs. In this example competition from MNCs has doubtedly led to some displacement of manpower from local firms to MNCs⁽¹³⁴⁾.

4) Employment

Taking the previous discussion into consideration, empirical studies and statistical data available provide evidence which suggests that MNCs have contributed to increasing the number/level of employment in developing countries. In Mexico, very high annual employment growth rates in the whole of the industrial sector go together with a fall in employment in local firms between 1965-1975 (e..g in miscellaneous activities the annual growth rate in MNCs amounted to 23% against 3.2% in local enterprises; the smallest growth rate was 8% in MNCs textiles activities

against -1.7% in local firms in the same activity)⁽¹³⁵⁾. Multinational trading houses in the same country accounted for another substantial proportion of the total employment found in MNCs (some 12% in 1977)⁽¹³⁶⁾. In South Africa, table (B-33) portrays the contribution of MNCs by country of origin in employment.

Table (B-33) Employment by foreign-controlled enterprises in South Africa, by country of origin 1978.

	Enterprises		Plant		Employment	
	No.	%	No.	%	No.	%
U.K.	551	59.2	767	59.7	210,186	55.7
U.S.	228	24.5	304	23.7	95,818	25.4
W. Germany	67	7.2	90	7.0	25,932	6.9
Switzerland	21	2.3	36	2.8	9,583	2.5
France	18	1.9	24	1.9	7,575	2.0
Netherlands	15	1.6	21	1.6	10,409	2.8
Others	30	3.2	42	3.3	17,596	4.7
Total - All Foreign	930	100.0	1284	100.0	377,099	100.0

Sources: C. M. Rogerson, *Multinational corporations in Southern Africa: A spatial perspective* in M. Taylor and N. Thrift, *The Geography of multinationals: studies in the spatial development and economic consequences of multinational corporations*, London: Croom Helm, 1982, p. 202.

In general, according to the ILO, the shares of MNCs in employment in other countries can be summarised as follows: (137)

1. In Kenya, the share of MNCs in manufacturing employment was estimated at between 30 and 35% in 1976.
2. In Mauritania, approximately 40 to 50% of employment in the industrial sector seems to have been accounted for by a few MNCs in the mid-1970s.
3. In India, during the period January-June 1978, the employment share of MNCs was 80% for the production of record-playing, 73% for automobile tyres, 72% for storage batteries, 62% for acetic acid, etc.
4. As to Nigeria, the employment of MNCs identified by the industrial survey of 1975 which covered 1,290 establishments was estimated at 20%.
5. In the Philippines the estimated percentage of the total employment provided by the major 138 MNCs in 1976 was as follows: 55% in manufacturing, mining and quarrying 14%, construction 11%, agriculture 7%, transport communications and utilities 7%, etc. The share of MNCs in total manufacturing employment was estimated at 7%. The employment share of MNCs in the whole economy was found to be approximately 1% in 1977.
- 6) In Zaire, about 30 to 35% of the workers in the manufacturing industry sector would appear to have been employed by MNCs.

In short a huge amount of evidence in several developing countries demonstrates both the continuing growth of employment in MNCs and the great extent of MNCs share in employment creation in several economic activities in the developing host countries.

The MNCs direct employment trends in general was estimated at 4 million persons directly employed by these firms in developing countries in 1980. This figure was about 5% of the total labour force in the developing world. The increase in employment for the period 1970-1977 was about 75%⁽¹³⁸⁾. See also Employment Trends for the affiliates of MNCs of various origins in the main developing countries of Asia, Africa and Latin America which are shown in table (B-34) in the next page.

It is interesting to look at the breakdown of employment by nationality of employees. Table (B-34) therefore shows the structure of employment in MNCs by sector of activities and skill-mix in selected developing countries in 1977. As table (B-35) demonstrated it is clear that the overwhelming majority of total MNCs¹ employees in the developing countries covered are local nationals either in terms of technical/professional employees or managerial staff. It was also realised that a high

(*) Concentrated in Mexico, Brazil, Argentina mainly. While in Singapore, Hong Kong, Zambia, there was also a high proportion of concentration in MNCs employment.

Table (B-34) Employment trends for affiliates of multinational enterprises of various origins in the main developing countries of Africa, Asia and Latin America (indices)

(1960 = 100)

Origin of Enterprises	1970	1977
Japan	(a) 680 (b) 148	(a) 2657 (b) 284
F. R. of Germany	(a) 643 (b) 340	(a) 1214 (b) 553
France	(a) 212 (b) 193	(a) 824 (b) 281
The Netherlands	(a) 272 (b) 203	(a) 569 (b) 285

(a) Employment in sample enterprises' affiliates (including new ones, set up or acquired) in 1960, 1970 and 1977 respectively.

(b) Employment only in the affiliates which existed in all three years 1960, 1970 and 1977. In view of the different degree of detail in which data were received by the ILO it was only possible for affiliates of enterprises from the four countries shown in the table to calculate such standardised indices.

Source: ILO, Employment effects of multinational enterprises in developing countries, op.cit., p. 24.

Table (B-35) Employment structure and percentages of local and foreign technical and professional employees and managerial staff in MNCs in selected developing countries - 1977.

	Kenya	Libya	India	Pakistan	Chile	Mexico
(1) <u>Sector</u>						
Production & related workers	67.8	49.2	72.0	75.7	63.7	64.1
Clerical & Admin. Staff	25.3	(46.5)	13.0	12.5	21.5	22.6
Technical & Professional employees	3.4	(9.3	9.5	10.7	9.1
Managerial Staff	3.5	4.3	5.7	3.5	4.1	4.2
Total	100.0	100.0	100.0	100.0	100.0	100.0
(2) <u>Skill Mix & Nationality</u>						
(A) Technical & Professional:						
- Local	85.9	59.9	99.9	99.4	97.1	99.5
- Foreign	14.1	40.1	0.1	0.6	2.9	0.5
(B) Managerial staff:						
- Local	81.9	64.3	99.0	97.1	86.5	94.5
- Foreign	18.1	35.7	1.0	2.9	13.5	5.5

Source: Ibid., quoted from Tables no. 11.5 and 11.8, pp. 34 and 35, and p. 40.

proportion of the employees in MNCs was concentrated in production and other related activities.

In terms of employment in the Free Trade Zones and similar sites, tables (B-36, B-37) portrays the size of the labour in selected developing countries.^(*) As can be seen the free trade zones and manufacturing zones investments and similar sites have added a relatively significant number of jobs in the countries covered. At the same time it is difficult in the light of the above data to define the extent of the contribution of such areas/zones to the total employment in each country.

Regarding training, enquiries covering U.S. multinationals shows the importance of training in these firms. In Latin America 63% of the 310 subsidiaries questioned had regular training programmes. (These are extremely varied, ranging from marketing to executive training and include industrial painting and courses in reading). However, in other cases, companies have reported that the cost of training is high and there is difficulty in inculcating the habit of working in a given environment⁽¹³⁹⁾.

Taking into account the wages and other related employment benefits (particularly the learning of demonstration effects the previous evidence has arguably illustrated that MNCs have contributed on a relatively significant base to the total employment in the host developing countries, regardless of the variation in concentration of employment throughout the countries covered.

* For tables (B-36) and (B-37) see following pages.

Table (B-36) Employment in Free Trade Zones and similar sites of selected developing countries (mid 1970)
Thousands

Country of Origin	Labour Force		All Sectors
	Free Trade Zones	Manufacturing	
<u>Asia:</u>			
Hong Kong *	60.0	n.a.	n.a.
India	3.2	17,067	240,285
Korea R. Of.	120.0	2,798	12,686
Malaysia	50.0	n.a.	4,095
<u>Middle East:</u>			
Egypt	10.0	1,296	15,517
Jordan	0.6	n.a.	652
Syria	0.6	276	1,890
<u>Caribbean:</u>			
Haiti	40.0	n.a.	2,299
Jamaica	1.0	99	672
<u>Africa:</u>			
Tunisia	24.0	n.a.	n.a.
Mauritius	17.5	n.a.	n.a.
<u>Central America:</u>			
El Salvador	2.9	128	1,270
Mexico	70.0	3,277	17,071
<u>South America:</u>			
Brazil	27.3	n.a.	34,612
Colombia	2.8	n.a.	7,678

(*) Frobel, et al., "The new international division of labour" - 1980.

Source: EIU "Investment: the growing role of export processing zones 1979" in ILO, Employment effects....
op.cit., quoted from Annex table, p. 90.

Table (B-37) Employment in Asian export-processing zones^(a)

Country	Employment (thousands)	Year	% of manufacturing employment
Hong Kong	70.0 ^(b)	1979	8
India	3.100	1980	0.1
Indonesia	8.800	1981	0.2 ^(c)
Malaysia	73.100 ^(d)	1980	23.4
Korea R. of	121.700 ^(e)	-	5.1
Philippines	22.800	1980	3.2
Singapore	105.0 ^(f)	1980	35.7
Sri Lanka	14.700	1981	7.3

(a) In organized sector

(b) In wholly owned foreign firms only.

(c) Based on employment data in manufacturing for 1977.

(d) West Malaysia

(e) 31200 in two zones (1970) plus 80,000 in seven export industrial estates, (1975).

(f) Estimate of employment in export processing zones type of industries (export-oriented, foreign-owned firms in textiles, garments, electronics, etc.

Source: ILO: Yearbook of labour statistics, 1982", in R. Maex, Employment and Multinationals in Asian Export Processing Zones. Working paper no. 26, ILO, Geneva, 1983, p. 33.

Perhaps the differences in the volume of employment between the countries surveyed may be connected with e.g. FDI flows, FDI orientation/distribution by sectors, factors in host government policies adopted towards FDI, locational factors, etc.

Finally, it is probable that there are types of FDI where particular employment gains can be earned i.e. the more labour-intensive processes are transferred to developing countries, the greater number of jobs that can be created, the lower the level of skilled worker required, or the lower training and development of labour skills would be possible, etc.

(5) Balance of payments effects

As demonstrated earlier, the impact of FDI on host countries' balance of payments and trade is a function of number of interacting and inter-related factors. Without embarking on more detail, some empirical results concerning factors influencing the host country's balance of payments as attributed to FDI (with the inflow/outflow of capital etc. in mind) can be summarised as follows:

1) Transfer pricing. In this connection, Lall⁽¹⁴⁰⁾ has reported that in the case of Singapore, it is felt that it probably gained from transfer pricing rather than losing even though it was not a tax-haven country. This allayed fears that transfer-pricing was bound to be used to exploit the Third World, regardless of tax-tariff considerations

(also some developing countries which had adopted very liberal policies on MNCs did not seem to suffer from this problem).

Biersteker^(14.1), has pointed out that there is no evidence that MNCs have systematically used transfer pricing mechanisms specifically to reduce their tax payment to Nigeria. Nor is there evidence that the Nigerian government's ability to undertake projects or expand social services has been reduced by a capital outflow from foreign manufacturing investments as it would be for most underdeveloped countries.

However, Yunker's study^(14.2) illustrates that MNCs are still using transfer pricing as an instrument for enhancing their overall profitability. It provides evidence to suggest that high profitability in a particular subsidiary may partially be the result of transfer pricing policies or practices which artificially allocate a greater proportion of total subsidiary profit to that particular subsidiary is operating in a low tax country. Briefly, the survey discloses significant inter-relationships between subsidiary autonomy, performance, assesement and transfer pricing^(14.3). Practices of this kind (i.e. transfer pricing) as argued before, will have some influence on the country's balance of payments.

Broadly speaking the history of business includes evidence which illustrates that some countries have been affected by transfer pricing practices by MNCs. Studies

on Latin American countries for example show examples of both overpricing and underpricing. Over pricing for instance in Columbia for the period 1967-70 was estimated in relation to pharmaceutical import prices to be 87% greater than the world prices, and for 1968 the extent of overpricing was 155%⁽¹⁴⁴⁾.

2) Trade effects. During the last decades or so, exports of manufactures have played a vital and increasing role in the development of developing countries. In this connection, Maex⁽¹⁴⁵⁾ has demonstrated that the aggregate developing countries' manufactured exports surged from \$2.5 billion in 1960 to 32 billion in 1975 and 63 billion in 1978. In South and East Asian countries, the annual growth in exports of manufactured goods from 1960 to 1979 was 19.8% which was much the same as that for all developing countries taken together. Growth accelerated remarkably towards the end of the period between 1975 and 1979, the annual growth rate exceeding 30%, increasing from \$1.6 billion to \$42 billion. The share of south and east Asia in world exports of manufactures rose from 2.4% in 1960 to 5.3% in 1978.

The share of MNCs and the contribution of FDI in general in the exports of manufactures are shown in the following tables (B-38), (B-39) and (B-40). Although the figures in these tables seem to be out-of-date they highlight the extent to which FDI contribute to the exports of manufactures in some developing countries.

Table (B-38) Share of MNCs in the exports of manufactures from selected LDCs - 1972.

Hong Kong	Taiwan	South Korea	India	Singapore	Brazil	Mexico	Argentina
10%	(at least) 20%	15%	5%	(nearly) 70%	43%	25-30%	(at least) 30%
Pakistan		Colombia					
5-10%		30% or more					

Note: Excludes multinational buying groups. e.g. Marks & Spencer of U.K.

Source: D. Nayyar, "Transnational corporations and manufactured exports from poor countries", in N. Hood and S. Young, *The Economics of Multinational enterprise*, op.cit., p. 206.

Table (B-39) Share of MNCs in exports of manufactures from selected developing countries.

Country	Year	MNCs share in the exports of manufactures, (%)
South Korea	1974	27.8
Taiwan	1971	20.0
Singapore	1976	90.0
Colombia	1970	35.0
Argentina	1969	30.0
Mexico	1969	25.0
Brazil	1969	43.0

Source: P. K. M. Tharakan. *Multinational companies and a new international division of labour*, op.cit., p.98.

Table (B-40) Exports of Taiwan, South Korea and Singapore due to foreign investment (\$ Millions)

Country	Value		Annual Percentage Change
	1967	1971	
<u>Taiwan</u>			
Manufactures ⁽¹⁾	394	1428	38
Others	247	570	23
Total, Taiwan	641	1998	33
<u>South Korea</u>			
Manufactures	214	875	42
Others	106	193	16
Total, S.Korea	320	1068	35
<u>Singapore</u>			
Manufactures ⁽²⁾	94	221	24
Others	1043	1631	12
Total, Singapore	1137	1852	13

Notes: (1) Excluding canned pineapple, canned mushrooms and canned bamboo shoots. (2) excluding rubber, petroleum and road motor vehicles.
 (3) The incentives and general economic and political conditions in these three countries led to a large increase in foreign investment in the late 1960's.

Source: - B. I. Cohen, Multinational firms and Asian exports, (New Haven: Yale University press, 1975), p. 61.

3) Investment orientation and factors in costs effects. There are sourcing of investment types and cost factors where a possible particular favourable impact on the host countries' balances of payments can happen. In this respect for instance, Maex⁽¹⁴⁶⁾, and Tharakan⁽¹⁴⁷⁾, among others

have pointed out that as a result of incentives for exporters of manufactures, new influx of FDI for labour-intensive production (partly connected with relocation of production lines from the developed countries), differences in the average hourly earnings in some industries between developed countries (DCs) and LDCs, etc. it is not surprising to notice the recent sharp increases in the export-oriented investment of MNCs in the developing countries.

Table (B-41), for instance, shows average hourly earnings in electronics and garment manufacturing and other industries in selected countries.

Table (B-41) Average hourly earnings in selected industries and countries

	Year	Electronics	Garments
<u>Asian developing US Japan & U.S. (1)</u>			
Hong Kong	1980	0.97	1.03
Korea, Rep of	1980	0.91	0.59
Malaysia	1980	0.42	n.a.
Philippines	1978	0.30	0.17
Singapore	1980	0.90	0.80
Sri Lanka	1981	n.a.	0.12
Japan	1980	5.97	3.56
U.S.	1980	6.96	4.57
<u>Ratio DC/LDC⁽²⁾</u>			
Hong Kong		10.3	9.7
Jamaica	As pub- lished	7.4	n.a.
Mexico	in 1976	4.2	6.2
S. Korea		10.2	10.1
Singapore		11.6	11.6
West Indies		4.6	n.a.
Taiwan		n.a.	9.8

Sources: (1) G. Edgren. "Export processing zones..." in R. Maex Employment and Multinationals in Asian Export processing zones.
 (2) Y. Sabolo, et al., "The Impact of Transnational enterprises on employment in developing countries..", in P.K. Tharakan. Multinationals corporations and a new International division of labour op.cit. p. 104.

In reviewing the costs and benefits of the export-oriented labour intensive investments of MNCs in developing countries, Sharpston⁽¹⁴⁸⁾, and Helleiner⁽¹⁴⁹⁾ have demonstrated empirically that this type of investment as a direct source of foreign exchange is or can be largely positive. But most of the growth effects in this respect can be eroded through the concessions and subsidies offered to attract the MNCs.

In the case of international subcontracting, Table (B-42) provides evidence which suggests that a tangible increase of Haiti for value of exports to the U.S. has been realised.⁽⁺⁾

As would be expected, a tight relationship may exist between production growth of manufactured goods in a given country and consequently the possibility of reducing imports/ increasing exports, affecting the contribution of the balance of payments of that country. In this connection, the role of MNCs is bound to become important in the production growth rate in the developing countries. Also, table (B-43) thus aims to focus on the role of the MNCs in production growth rate in manufacturing in selected countries.⁽⁺⁾ Nevertheless, an attempt was made to assess the balance of payments and income effects of MNCs investment with reference to two different sets of assumptions on "alternative situations"^(*). Lall and Streeten⁽¹⁵⁰⁾ -using the alternative situation of importing the product of the MNCs in question- have found that over half of the foreign investment

+ See next page.

* Importing the products vs. local replacement.

Table (B-42) FOB value of exports by sub-contracting industries to the US. products manufactured using imported elements (1970-1976):
The Case of Haiti

Products	Value (\$ thousand)	
	1975	1976
Tulle, lace, ribbons and others	270	198
Iron and steel goods	46	n.a.
Electric generators	41	n.a.
Office machines & accessories	3190	6258
Machinery and spare parts	800	1134
Transformers, switches	3750	5484
Equipment for electricity supply	1520	438
Radio, record player, TV & accessories	70	82
Electric & electronic material	6299	11820
Luggage, handbags	505	793
Clothing and Accessories	23876	33840
Footwear	1020	1637
Recording equipment, etc.	696	628
Rubber and Plastic goods	320	482
Toys, sports goods incl. equipment	17870	25100
Total	60273	87894

Notes: The rate of growth of the main categories of off-shore international subcontracting industries and of the total over 1970-1976 as follows: clothing = 68.27%, toys and sports goods = 36.99%, and electrical and electronic equipment = 322.87%. The total growth rate = 59.98%.

Source: Jean-Robert Estimé, "International subcontracting: the case of Haiti: In: D. Germidis, International Subcontracting: a new form of investment, OECD, Paris, 1980, Table (7), p. 84.

Table (B-43) Annual average production growth rates in manufacturing and selected branches for several developing countries - 1968-77 (percentages).

Country	Total Manuf. (%)	Selected branches in which MNCs are mainly concentrated.	%
Brazil	10.0	Transportation equipment	16.3
		Industrial chemicals	11.2
Colombia	6.6	Rubber	12.4
		Metal products & non electric machinery	9.2
Kenya	9.9	Paper and paper products	15.2
		Rubber products	14.3
Korea	21.9	Electrical machinery	44.4
		Transportation equipment	32.4
Mexico	6.1	Industrial chemicals	11.8
		Electrical machinery	8.7
Peru	6.4	Industrial chemicals	14.4
		Non-electrical machinery	11.8
Philippines	4.8	Wearing apparel and footwear	10.5
Singapore	12.6	Electrical machinery	32.0
		Paper and paper products	21.0
	25.3*	of which:	
		wholly foreign-owned enterprises	31.7
		joint ventures	26.6
		local enterprises	15.8

* 1963-1975.

Source: U.N. Yearbook of industrial statistics, 1978, ed., 1980, in ILO employment effects of multinational enterprises.... op.cit., Annex table III, p.51.

in a sample from six developing countries yielded negative effects because of the high protection accorded to all imports substitution investment (local and foreign). The countries would consequently, have been better off in social cost-benefits terms in these cases, if they had imported the product instead of manufacturing it locally on a small scale in highly protected industries with costly inputs and poor infrastructure.

A comparison between Lall and Streeten's findings and another piece of work is portrayed in table (B-44). As the table shows, the aggregate effect of FDI on the balance of payments in a particular sense was also negative, while it was generally positive in most cases in terms of the income effects.

Table (B-44) Some aggregate effects of foreign private investment in selected developing countries - results of two studies.

Bos, Sanders and Secchi			Lall and Streeten		
Countries Covered	Income effects	Balance of Payments	Countries Covered	Income effects	Balance of Payments
India	+	-	India	+	-
Philippines	+	-	Iran	+	-
Ghana	+	-	Colombia	-	-
Guatemala	+	-	Kenya	+	-
Argentina	+	-	Jamaica	+	-
			Malaysia	-	-

Source: H. C. Bos, M. Sanders and C. Secchi, "Private foreign investment in developing countries", S. Lall and P. Streeten, "Foreign investment: Transnational and developing countries", in P. K. Tharakan, "Multinational companies and a new international division of labour", op.cit., p.122.

Meanwhile, the second study by Lall and Streeten⁽¹⁵¹⁾, which examined the performance of 159 companies with different structures of ownership (foreign controlled and locally controlled) in the same countries, found that the balance of payments effects were negative in all cases except in the case of Kenya probably due to the rather unrepresentative nature of the export performance of the firms included in the sample for that study. It has been argued in this regard that the main reason for these negative results are that the export propensities of the subsidiaries of the MNCs do not appear to be very high and the percentage of value added domestically in the final product though varied was never high in the case studied⁽¹⁵²⁾. It is also possible that other inputs (direct or indirect) of the country's balance of payments as well as income may not be included in all cases⁽¹⁵³⁾.

(6) Other effects Particularly, as to the cultural and political impact of MNCs, it has been argued that it is difficult to establish criteria for judging the influence of MNCs on national sovereignty/autonomy and the mere assumption that loss of sovereignty entails a cost involves a value judgement⁽¹⁵⁴⁾. Nevertheless, it may be useful to highlight in general the results of two recent surveys which investigated the so-called "credibility gap" between the MNCs and the host Third World Countries. With the preceding discussion of dependency issues and some other

practices of MNCs, the following are the main results of the two surveys:

As to the first survey, it has been undertaken by the London-based Corporate Responsibility Centre (CRC)⁽¹⁵⁵⁾. The CRC set up a special working party involved with key groups of people closely associated with the problem under investigation (ie. credibility gap). These included 30 different London-based diplomatic missions of Third World Countries, corporate officers in 48 different MNCs, 52 academics at London Business School and the London School of Economics and 33 foreign U.K. based journalists).

Sensitive areas like secrecy, technology transfer, political involvement and questionable business practices such as bribery and so forth were considered. But the opinion gap among the panel's members was widest - particularly - on political and commercial issues. The followings, however, are the main findings:

(1) In terms of the current political behaviour of the MNCs, 60% of diplomats said only a minority behaved well. Although the top corporate officers of MNCs have denied the diplomats' opinion, a similar divergence of opinion emerged from responses to a contentious statement that MNCs sought to change hostile governments by conspiring to bring about their downfall with opponents of such regimes, while the overwhelming majority of MNCs denied this, a third of the diplomats thought it was true.

(2) In regard to the issue of commercial behaviour, more than three quarters of the diplomats said that MNCs were often involved in corrupt practices, particularly the bribery of ministers and officials. In contrast - and not surprisingly - the majority of MNCs officers denied this, although a significant number - roughly a third admitted it was true.

Perhaps, the relationship between MNCs and Third World countries is an uneasy one, where the latter have nurtured the growing suspicion of economic exploitation and political impact; "while the MNCs - after being criticised, investigated and progressively restrained - have emerged with the corporate paranoia of being the industrial whipping boys of governments, only their mutual need for each has kept the relationship going, at least this is the conventional wisdom", says C.R.C. report⁽¹⁵⁶⁾. The key recommendations, however, was that the MNCs should devote more resources to building up their reputation in the Third World countries.

With regard to the second survey, the Financial Times (on Feb 2, 1983), quoted this:

In 16 countries - outside North America and the Eastern bloc, a survey concerning corporate ethics revealed that: more than half of the managers surveyed (53%) have faced at least one conflict between the demand of their company and what they personally believed to be right. In that majority of managers faced with an ethical conflict, it was found that 27% of them (equal to 1 in 7

of all managers surveyed) said they did what was expected of them by their employer. Irregular and/or illegal payments is a major issue in business ethics facing the managers.

In regional terms, the pattern of unethical behaviour varies widely. Just over a fifth of European executives said they had been asked to make irregular payments, compared with just under a third of managers in the Middle East and 44% in Latin America. Moreover, far fewer businessmen admitted receiving gifts or bribes, around 10% in Europe and Latin America and only 2% in the Middle East.

Final Comment

The available evidence reported previously suggests that substantial benefits have been earned through FDI in developing countries, costs are inevitably incurred. In general terms, it is difficult to conclude from the preceding empirical evidence framework that increasing FDI in developing countries will not lead to a better economic and social progress within/between these countries. At the same time, it may be a risky proposition to conclude that increasing FDI in the developing host states will negatively influence their overall eco-social development. Numerous types of FDI effects still require more verification and examination on an empirical basis. Interactions, inter-relationships and the integral nature of several direct and indirect effects of FDI may make it difficult to determine the extent to which FDI is definitely

favourable in a certain situation compared with another.

Furthermore, both country-specific factors (economic, socio-political, investment climate and policies adopted, etc.) and MNCs practices, objectives and many of their ownership-specific factors are of great importance in assessing the cost and benefits of FDI. Meanwhile, to evaluate FDI effects, standards upon which costs and benefits should be viewed must firstly be specified. At present, it is difficult to suggest whether or not a certain level of capital inflow or technology, for instance, will benefit a given host country compared with another or even the same country at different times.

2.4 The Benefits and Costs of FDI in the Middle East: Empirical Results

In highlighting the benefits and costs of FDI in the Middle East perspective, it has primarily to be noted that empirical studies in this connection are quite rare. Partly, because most of the Middle Eastern countries - particularly the Arabian states - have only recently admitted the MNCs participation on a relatively significant scale. Partly too, international business studies in general are arguably a new phenomenon which does not receive a significant degree of commitment in most of the academic institutes and universities in this region. Nevertheless, examples of empirical evidence on FDI influences in the Middle East can be summed up as follows:

(1) Capital Inflow. With incomplete data which prevents the detailed analysis required, the main feature of FDI inflow in the Middle East is as follows: (*)

(a) With regard to FDI distribution by major developing host regions, it can be seen from Table (B-45) that more than 50% of the total FDI stock is located in Latin America. The remainder is distributed as follows - Asia and Oceania 28%, Africa 14% and the Middle East just above 3%.

Table (B-45) Stock of FDI by OECD-DAC countries in developing country regions - 1970 and 1976

Developing Countries in:	End 1970		End 1976	
	\$ 1,000 Million	%	\$1,000 Million	%
Africa	7.9	19.4	9.7	13.9
Central America	8.6	21.1	18.5	26.7
South America	13.8	33.9	19.2	27.8
Middle East	3.4	8.4	2.2	3.2
Asia (*)	7.0	17.2	19.7	28.4
Total	40.7	100.0	69.3	100

* Including South Asia, the Far East and Oceania.

Source: Adapted from OECD: Investing in developing countries, Paris, 1978" in ILO, employment effects of multinational enterprises... op.cit., p.5.

(b) Taking into account the net receipts of FDI by Saudi Arabia, Egypt and Iran from 1978 to 1981 as demonstrated in Chapter (1), the estimated stock of FDI in the case of

(*) See also the preceding evidence on capital flows concerning the Middle East.

Libya and Israel at the end of 1981 was as follows -
Libya \$1.5 billion, and Israel \$1.2 billion⁽¹⁵⁷⁾.

c) In 1974 the stock of FDI amounted to \$630 million, and direct investment was \$82 million, while in 1978 direct investment reached \$153 million in the Middle Eastern countries excluding oil producing countries (members of OPEC).⁽¹⁵⁸⁾.

It can be realised, however, that while FDI has contributed to capital inflow in the Middle East, meanwhile it is also obvious that the Middle East has maintained its lower share during the 1970s in general despite the increase of FDI inflow in 1978 compared with 1974. As illustrated, the sharp decrease of FDI stock in the Middle East in the early 1970s in general was mainly a result of nationalization measures or restrictions on equity shares, etc. In addition, there were the effects of the developments in Iran and the 1973s war.

(2) Technology Transfer

In this respect, Ajami⁽¹⁵⁹⁾ administered a questionnaire consisting of questions regarding technology transfer via MNCs in the Arab countries. The study produced the findings below:

(a) About 72% of the total Arab elites and 80% of the government and intellectual elites in both Kuwait and Iraq clearly indicated a desire for MNCs to carry out R & D in Arab host countries devoting more local efforts in this

respect. The number of scientific personnel engaged in R & D, varied between 15,000 and 20,000 persons, with the largest concentration of over 10,000 in Egypt alone.

(b) All the Arab elites recognized the indispensability of foreign technology channelled through MNCs. Even in radical Iraq, the Ba'ath party realized the importance of foreign technology, know-how and managerial skills to industrialization. Foreign firms however, are required to bring in an adequate number of non-Iraqi technicians for carrying out projects.

(c) On the desirability of linkages to MNCs over 74% of the respondents felt strongly that such linkages with MNCs would provide increased efficiency and productivity for Arab industry.

(d) As to the issue of whether advanced technology was transferred or not, 55% of all Arab elite members agreed that the MNCs were transferring advanced technology while 44% disagreed.

(e) In terms of the issue of appropriateness of technology transferred by MNCs, there was no consensus in this respect 47% indicated that the technology transferred was appropriate, while 43% indicated that it was not.

The findings, in very generalized terms, indicate that the role played by MNCs regarding technology transferred is in the Arab countries' favour.

Another piece of work on technology transfer in the Sudanese Food processing industry prepared by Osman⁽¹⁶⁰⁾,

has stated in very general terms that Sudan relies on imported technology (machinery and know-how) in food production. The technology-supplying firms are primarily from Western developed countries, mainly U.K., W. Germany and Italy⁽¹⁶¹⁾. Dealing solely with importing technology, the study unfortunately contains no evidence concerning the other alternative channels of technology transfer. Small-scale industry mainly privately-owned which accounts for 63.4% followed by 29.3% public firms' share, and the smallest share is foreign joint ventures (mostly Egyptian and some other Arabic capital supplied)⁽¹⁶²⁾. The presence of MNCs or FDI participation in this regard is insignificant, so that it is hard to explore the extent to which FDI has influenced the Sudanese economy. This is probably because the Sudanese government has recently (1980) relaxed to some extent the restrictions imposed on FDI after the massive nationalization measures which have taken place during the presidency of Numeiri. Thus the participation of FDI in general is considerably limited.

(3) Employment

It has been pointed out earlier that there are types of investment by means of which several employment gains can be achieved. In general, according to tables (B-35) and (B-36) it can be seen that in countries such as Egypt, Syria, Jordan and Libya the contribution of FDI to employment creation is considerable. Meanwhile, as table (B-35)

shows, the localisation of labour force in Libya is relatively high. In Iran the percentage of MNCs' share in manufacturing employment in 1975 was 10-15%⁽¹⁶³⁾. Additionally, at the end of 1975, known employment of U.S. MNCs subsidiaries (79 subsidiaries) in North Africa and the Middle East totalled 25,615 employees, 2012 of whom were in Egypt⁽¹⁶⁴⁾. But the figures of employment created by the U.S. firms in the Middle East is very small compared with their counterparts in Latin America or South Asia and Far East⁽¹⁶⁵⁾.

It has been mentioned that it is in industry such as labour-intensive/export-oriented manufacturing that the MNCs are most explicitly expected to provide substantial direct employment. The government of Tunisia makes a special policy encouraging the establishment of enterprises employing large numbers of workers by offering special tax incentives scaled to the size of the workforce. Table (B-46) shows distribution of jobs created in export firms according to the nationality of the promoter over the period 1973-1976 in Tunisia.

Irrespective of the number of jobs created, it is clear that Tunisia unlike Libya, tends generally not to be very much concerned with localisation of the labour force as can be seen in table (B-45). This is probably caused by the different ideologies of the two countries.

In Algeria, Bouattia⁽¹⁶⁶⁾ has pointed out that (in a particular case study) the number of jobs offered by

Table (B-46) Distribution of jobs created in export firms according to nationality of promoter (1973-1976): The Case of Tunisia.

Nationality	Number of Jobs				% by nationality period 1973-76
	1973	1974	1975	1976	
Tunisian	2976	1000	852	1051	13.5
Solely foreign of which:	6666	4991	6446	4644	52.2
German	2349	2610	2371	2340	22.2
Benelux	1049	941	2374	936	12.2
French	469	1238	843	975	8.1
Italian	1318	35	170	116	3.8
Mixed of which:	4989	3351	2642	3936	34.3
Tunisian-German	798	581	593	283	5.2
Tunisian-Benelux	1028	740	688	252	6.2
Tunisian-French	1356	1358	938	1045	10.8
Tunisian-Italian	1548	182	124	502	5.4
Total	14631	9342	9932	9631	100.0

Notes: 1. Firms set up in 1973 and 1974 totalled 668 firms of which 114 were export firms.

2. The total number of jobs was recorded as being 1,387,000 in 1972 to which there should be added 145,000 jobs created from 1973 to 1976, which brings the total to about 1,532,000 jobs (of which 50 to 60% were permanent for a population of 5,910,000 at 1st January 1977).

Source: Michel Falise, "International sub-contracting: the case of Tunisia", in D. Germidis, international subcontracting, op.cit., pp. 144-47.

Sonatrach Company in 1973 which at that time was a minor partner with international companies was 40,000. Meanwhile, the number of French employees was relatively great. Among 1,800 engineers and technicians employed for example - only 240 were Algerians while the remainder were foreigners. On the other hand, it has been reported that, a large part of unemployment has been absorbed due to high investments in industry and other economic sectors between 1975-1977. e.g. in 1975 the total number employed in industry, infra-structural services, trade, etc. was 1,731 in 1976 the number was 1,812 while the estimated number in 1977 was 2,100⁽¹⁶⁷⁾.

Broadly speaking, FDI in general has an impact on employment although the relationship between these two variables is not always clear (because of the reasons which have been already outlined). Meanwhile, it is possible to argue that the number of jobs created in a given host country is a function of or can be used as an indicator of the size and types or orientation of FDI in that country.

(4) Monopoly/competition and other socio-political considerations

In detail, Ajami's study has highlighted these types of influences in the Arabic states and more specifically in the case of Kuwait, Saudi Arabia and Iraq. Therefore it may be useful to underline briefly the major findings as follows:⁽¹⁶⁸⁾

(1) In the petrochemical industry which is becoming a matter of national pride, like steel plants, it has been said that the MNCs try forcefully to resist the attempts of the oil states to gain a foothold in petrochemicals. The local criticism, however, is that the MNCs attempt to keep the oil states out of manufacturing activities in which the MNCs are unjustly trying to monopolize world markets.

(2) In terms of local competition: this issue has surfaced in Saudi Arabia. The local partners of the MNCs are usually large local enterprises, and this has become a source of worry to those concerned with the viability of small and medium-sized firms on the one hand. On the other hand, the MNCs could block the development of private initiative and perhaps destroy smaller business units.

In general, the Arab technocrats tend to accept the realities of the world economy, but they see as an unfair bargain any attempt to exclude them from the marketplace. ie. they are determined to go beyond being suppliers of raw materials.

(3) As to the question whether MNCs contribute towards increasing Arab political leverage in the world community, there was a consensus that these companies adversely affect Arab society. On the issue of loss of control over the national affairs, there was a considerable agreement that MNCs activities do cause some loss of control (ie. 60% of the total Arab elites indicated agreement with this, while

37% indicated disagreement, with the Iraqi 72% more than the Kuwaiti 48%. Among the Iraqis, there was a high level of consensus on this question among both the government officials and the intellectuals while 73% of the economic and business elites disagreed.

(4) Regarding the question as to whether MNCs are inclined more than purely national firms to act more frequently in ways that are contrary to the national interest, the responses revealed differences between oil-multinationals and non-oil multinationals. i.e. the purely national oil firms will act in the best interests of Arab society much more than the foreign ones, while in the case of non-oil multinationals the presence of a local partner - 51% national ownership in Kuwait - is supposed to alleviate the problems posed by MNCs.

(5) As to the issue of association or link between MNCs and the position of dominance of their home states, there was a relatively strong association in the mind of Arab elites between the two, where 54% of the total Arab elites indicated that they implicitly made the link while 29% indicated that they do not. Moreover, 82% of the Arab intellectuals and 68% of the government officials indicated that they do make such a link, while only 14% of those in the business and economic elite do so.

(6) In answer to the question whether the cultural intrusion of western ways of life as a result of MNCs' activities is good or bad, 53% of the total Arab elites

responded that the influence has been good, 27% indicated that it has been bad, and 20% had mixed feelings. But the most critical group were the intellectuals with 59% holding the view that it is bad, because the cultural impact of MNCs activities is a mixed bag of results with some aspects viewed as good and others are bad.

Broadly speaking, it is obvious that there is a set of concerns which can bring potential conflicts between the Arab-states and MNCs. At the same time, the Arab world, like all other states, has groups which oppose the MNCs. At one extreme, some may oppose them either because they are excessively large enterprises which may displace the indigenous firms or influence their market share for example. At the other extreme, MNCs have been seen as disrupting the way of life and bringing about too rapid a process of social change, and radicals denounce all multinationals out of an opposition to capitalism. But the critics are everywhere, including the multinationals' home country⁽¹⁶⁹⁾.

Nevertheless, it could be a risky proposition to deny the contributions of FDI to Arab countries as well as the Middle Eastern countries. As to the question concerning the extent to which FDI can influence the overall economic and socio-political progress of these countries, it could be established that FDI influence is contingent upon numerous factors associated with FDI's partners' characteristics and properties. To some degree - with

factors in the host countries environment in general in mind - it is possible to argue that FDI policies, directions, practices, etc. still have a great bearing on the whole question of FDI benefits and costs in developing countries.

References

1. B.R. Baliga, World-Views and Multinational Corporations' investments in the less developed countries, Colombia Journal of World Business, Summer, 1984, pp. 80-84.
2. Ibid., 81-83.
3. I. Frank, Foreign enterprise worldwide, Economic Impact, No. 1, 1981, pp. 8-17.
4. Ibid., p. 8.
5. N. Hood and S. Young, The Economics of multinationals enterprise, op.cit., p. 240.
6. Ibid., pp. 325-338.
7. Ibid., p. 325.
8. T.J. Biersteker, Distortion or development ? Contending perspectives on the multinational Corporation, Cambridge: the MIT press; 1978, pp. 1-26.
9. W. Brandt, Sharing investment and technology, Economic impact, no. 1, 1981, pp. 34-40.
10. O.L. Freeman and W. Persen, Multinational companies: some facts and figures, Economic impact, no. 34, 1981, pp. 47-53.
11. T. Gladwin, Technology and Material culture, op.cit., pp. 195-197.
12. J.M. Livingstone, National Government and the international enterprise, Department of Marketing, University of Strathclyde, pp. 30-41.
13. B.R. Baliga, World views and multinational corporations investment in the less developed world, op.cit., p.81.

14. S. Lall, Transnationals and the Third World: Changing Perceptions, National Westminster Bank Quarterly Review, May 1984, pp. 3-16.
15. Ibid., p. 3-6.
16. Ibid., p. 6.
17. Ibid., pp. 6-7.
18. I. Frank, Foreign enterprise worldwide, op.cit., p.12.
19. Ibid. p. 13.
20. S. Allende, "Speech to the United Nations", in H. Radice (ed), International firms and modern imperialism (Harmondsworth, Penguin Books, Ltd., 1979 , p.239.
21. N. Hood and S. Young, The Economics of Multinational enterprise, op.cit., pp. 348-352.
22. The Guardian, "Trade embargo by USA on Nicaragua", May 2, 1985, p. 6.
23. D.W. Carr, Foreign Investent and development in Egypt, op.cit., pp. 3-5.
24. Ibid., p. 4.
25. R. Mikesell, Effects of direct foreign investment on Development, Economic Impact, no.35, 1981, pp.35-41.
26. R. Vernon and L.T. Wells, Manager in the International Economy, 4th ed. (Englewood Cliffs: Prentice-Hall, inc. 1981` , pp. 138-144.
27. R. Mikesell, Effects of Direct Foreign Investment on Development, op.cit., p. 38.
28. Ibid., p. 38.
29. R. Vernon and L. Wells, Manager in the international economy, op.cit., p. 142.

30. N. Hood and S. Young., The Economics of multinational enterprise, op.cit., p. 326.
31. Ibid., and p.353, p. 179 and pp. 325-338.
32. Ibid., p. 337.
33. W.A. Stoever, Endowments, priorities and policies, op.cit., pp.6- .
34. T. J. Biersteker, Distortion or Development? op.cit., pp. 2-3.
35. Ibid., pp. 27-48.
36. R. Mikesell, Effects of Direct foreign investment on development, op.cit., p. 40.
37. OECD, Investing in developing countries, (5th ed.), Paris, 1983, table (1), p. 17.
38. R. Mikesell, Effects of direct foreign investment on Development, op.cit., p. 36.
39. See N. Hood and S. Young's assessment of "MacDougall's model", regarding the effects of FDI in Australia in N. Hood and S. Young. The economics of multinational enterprise, op.cit., pp. 181-183.
40. S. Young, The Regional implications of foreign direct investments, Paper presented at ESRC/CURDS workshop on technological change, industrial restructuring and regional development, University of Newcastle, 28-30 March, 1984, p.3.
41. N. Hood and S. Young, the Economics of Multinational enterprise, op.cit., pp. 183-220.
42. T.J. Biersteker, Distortion or development ? op.cit., pp. 85-135.

43. N. Hood and S. Young, The economics of multinational enterprise, op.cit., p.124.
44. Ibid., p. 184.
45. O. Freeman and W. Persen, Multinational corporations: some facts and figures op.cit., p. 52.
46. W. Loehr and J.P. Powelson, The role of technology: an analysis, Economic impact, Forty, 1984, pp.20-25.
47. Ibid., p. 20.
48. N. Hood and Young, The Economics of Multinational enterprise, op.cit., pp. 184-185.
49. W. Loehr, and J.P. Powelson, The role of technology, op.cit., p.21.
50. S. Lall, Transnationals and Third World, op.cit. p.8.
51. Ibid., p.8.
52. N.Hood and S. Young, The Economics of multinational enterprise, op.cit., p.185.
53. S. Lall, Transnational and Third World. op.cit., p.6.
54. Ibid., pp.6-8.
55. F.J. Contractor, Technology licensing practice in US companies: Corporate and public policy implications, Columbia Journal of World Business, Vol XVIII, No.3, Fall 1983, pp. 80-88.
56. Business International, "Doing Business with Eastern Europe", in F. Contractor, Technology licensing practice in U.S. companies, op.cit., p. 82.
57. Ibid., p. 82.
58. A J. Prasad, "Technology Transfer to developing countries through multinational corporations" in

- R. G. Hawkins and A.J. Prasad (ed.), Research in international business and finance London: JAI Press Inc., 1981. Vol 2, pp. 151-173.
59. Ibid., p. 157-158.
60. N. Hood and S. Young, The economics of multinational enterprise, op.cit., p. 186.
61. Ibid., p.186.
62. Ibid., p.187.
63. S. Lall, Transnationals and the Third World, op.cit., p.9.
64. E. Braun and P. Senker, New technology and employment. London: Manpower Services Commission, July 1982, p.3.
65. H.R. Mason, "The transfer of technology and the factor proportions problem: the Philippines and Mexico" in N. Hood and S. Young, The economics of multinational enterprise, op.cit., pp. 187-189.
66. J.T. Mentzer and A.C. Samli, A model for marketing in economic development, Columbia Journal of World Business, Fall, 1981, pp. 91-101. (The authors present in this article a model of technology transfer to LDCs which is limited to marketing technology transfer).
67. N.Hood and S. Young. The Economy of Multinational enterprise op.cit., p. 188. See also:
(a) S. Lall, Transnationals and the Third World. op.cit., pp. 11-13.
(b) Chapter One - Section 1.3 for further information on factors in environments affecting FDI in developing countries.
68. S. Lall, Transnationals and the Third World, op.cit., pp. 10-11.

69. _____ The New Multinationals: The spread of Third World Enterprises, op.cit., pp. 5-8.
70. A.J. Prasad, Technology transfer to developing countries, op.cit., pp. 159-161.
71. W. Loehr and J.P. Powelson, The role of technology An Analysis, op.cit., pp. 22-23.
72. S. Young, The Regional Implications of Foreign Direct Investment, loc.cit.
73. T. Biersteker, Distortion or development ? op.cit., pp. 122-128.
74. S. Watanabe, "Multinational enterprises and employment: oriented "appropriate" technologies in developing countries", in ILO, Employment effects of multinational enterprises in developing countries, Geneva, 1981, pp. 39-43.
75. Ibid., p. 41.
76. Ibid., p. 42 and p. 43.
77. ILO, Employment effects of multinational enterprises in developing countries, op.cit., pp. 69-70.
78. Ibid., pp. 64-69, pp. 79-83, pp. 91-101 (much of these considerations were based on an extensive review of studies made by the ILO). Other valuable information concerning point no. (9) and other related considerations is to be found in R. Maex, Employment and multinationals in Asian export processing zones, Working paper no. 26, published by ILO, Geneva, 1983.

79. ILO, The impact of multinational enterprises on employment and training, Geneva, 1976, pp.3-19.
80. S. Young, The regional implications of foreign direct investment, loc.cit.
81. N. Hood and S. Young , The Economics of multinational enterprise. op.cit., p. 190.
82. I. Frank, Foreign enterprise worldwide, op.cit.,p.13.
83. N. Hood and S. Young, The economics of multinational enterprise, op. cit., p. 190.
84. Ibid., p. 190.
85. Based on a review made by the ILO, Employment effects of multinational enterprises in developing countries, op.cit., p. 55.
86. Ibid., p. 78.
87. S. Lall, Transnationals and the Third World, op.cit., p.14.
88. Partly based on Chapter (1) as to factors in marketing, investment climate, etc.
89. N. Hood and S. Young , The economics of multinational enterprise op.cit., p. 190.
90. S. Lall, Transfer pricing by multinational manufacturing firms", in Ibid., pp. 190-191.
91. S.H. Robock and K. Simmonds , International business and multinational enterprises. op.cit., p. 509 (and for further illustration see pp. 532-536).
92. For shedding empirical light on the relationships between performance evaluations, subsidiary autonomy and transfer pricing see e.g. P.J. Yunker, A survey study of subsidiary autonomy, performance evaluation

and transfer pricing in multinational corporations, Columbia Journal of World Business, Vol. XVIII no.3, Fall 1983, pp. 51-64.

93. T. G. Parry, The Multinational enterprise, op.cit., p.100.
94. C. Vaitzos. "Introductory income distribution and transnational enterprise", Ibid., p. 101.
95. Ibid., pp. 101-102.
96. Ibid., pp. 102-103.
97. N. Hood and S. Young., The Economics of multinational enterprise, op.cit., p. 191.
98. S. Lall, Transnationals and the Third World, op.cit., pp. 13-19.
99. OECD. Investing in developing countries, Paris, 1983, pp. 16-18.
100. Ibid., Table 2, p. 20.
101. Ibid., p. 19.
102. Ibid., pp. 19-27 (including tables no. 5 and 6).
103. See for example: J. Fayerweather, International business strategy and Administration, op.cit., (tables A.5, A.7 p. 15, pp. 17-19. ILO, the impact of multinational enterprises op.cit., table 1.5, p.10.
104. Ibid., Table A.24, p.41.
105. J. Fayerweather , International business strategy and Administration, op.cit., p.12.
106. Ibid., table A/10, p.22.
107. Ibid., table A/16, p.31.
108. T. Biersteker, Distrotion or developoment, op.cit., pp. 89-102.

109. O. Freeman and W. Persen, Multinational Corporations: Facts and Figures, op.cit., pp. 51-52.
110. In a study by Newbould, et.al., on a sample of the U.K. multinationals they founds a relationship exists between the percentage of ownership and the degree of countries success in the host country. Detail in G.D. Newbould, Going international - the experience of smaller companies overseas, op.cit., p. 71-88.
111. D.B. Thomas, "Capital accumulation and technology transfer" in T. Biersteker, Distortion or development? op. cit., p. 120.
112. T. Turner, "Two refineries: a comparative study of technology transfer to the Nigerian Refining Industry" in Ibid., pp. 121-122.
113. Ibid., p. 121.
114. J. N. Behrman and W.A. Fischer, Science and Technology for Development Corporate and Government policies and practices. Cambridge: OG & Hain Pub. Inc. 1980 pp.10-28.
115. Ibid., table 1.1, p. 12.
116. Ibid., p. 26.
117. T. Biersteker, Distortion or development ? op.cit., p.7.
118. E. Mansfield, et.al., "Foreign trade and U.S. Research and Development", in R. Elliot, and P.Wood., The international transfer of technology and western European integration", in R. Hawkins and A.J. Prasad, Research in International Business and Finance, [London: JAI Press, Inc., 1981 , vol. 2, p.122.

119. S. Lall, Transnationals and the Third World, op.cit., p. 9, pp. 11-12.
120. J.S. Hill and R. R. Still, Adapting products to LDC tastes, op.cit., p. 93-94. An extensive example of these changes of products sold in the 22 countries (in Latin America, Middle East, Africa and Asia) covered in this study are provided).
121. T. Turner, "Two refineries", op.cit., pp. 122-123.
122. G.K. Helleiner, "Peasant Agriculture, Government and economic growth in Nigeria", in T. Biersteker, Distortion or development ? op.cit., p. 122.
123. Ibid., p. 122.
124. J. N. Behrman and W. Fischer, Science and technology for development, op.cit., pp. 24-25.
125. P.K.M. Tharakan, Multinational companies and a new international division of labour: A survey of alternative view", in ECSIM, The International division of labour and multinational companies , Westmead: Gower Pub. Co. Ltd, 1981 , p.90.
126. Ibid., p. 91.
127. Ibid., pp. 91-93.
128. Ibid., p. 94.
129. Ibid., p. 94.
130. ILO. Employment effects of multinational enterprises in developing countries, op.cit., p. 67.
131. More detail in N. Hood and S. Young, The Economics of Multinational enterprises...., op.cit., pp. 201-202.

132. International Metal Workers Federation, "The Multi-national companies in Asia and IMF activities in developing countries", in ILO. Employment effects of multinational enterprises in developing countries, op.cit., pp. 69-70.
133. T. Biersteker, Distortion or development ? op.cit., pp. 103-118.
134. A. Negandhi and B. Baliga, "Tables are turning..." op.cit., pp. 69-71.
135. ILO. The impact of multinational enterprises on employment and training, Geneva, 1976, p. 8 and pp.17-18.
136. Ibid., p. 18.
137. ILO. Employment effects of multinational enterprises, op.cit., p. 31.
138. Ibid., pp. 30-33.
139. Ibid., p. 21.
140. More detail in: ILO. The impact of multinational enterprises on employment, op.cit., pp. 28-29.
141. S. Lall, Transnationals and the Third World, op.cit., p.13.
142. T. Biersteker, Distortion or Development? op.cit., p.101.
143. P.J. Yunker, A survey study of subsidiary autonomy, performance evaluation and transfer pricing in multinational corporations, Columbia Journal of World Business, vol. XVIII, no. 3, Fall, 1983, pp. 51-64.
144. Ibid,, p. 51.
145. Several examples of both over and underpricing and

- monetary speculation are given in : N. Hood and S. Young, The economics of multinational enterprise, op.cit., pp. 209-212.
146. R. Maex, Employment and multinationals in Asian export processing zones, op.cit., pp. 3-5.
147. Ibid., p. 3.
148. P. K. Tharakan, Multinational Companies and a new international division of labour, op.cit., p. 103-110.
149. M. Sharpston, "International subcontracting", in P. K. Tharakan. Multinational companies and a new International division of labour, op.cit., pp.127-130.
150. G. Helleiner, "Transnational enterprise, manufactured exports and employment in less developed countries", in P. K. Tharakan, loc.cit.
151. S. Lall and P. Streeten, "Foreign investment transnationals and developing countries", in ILO. Employment effects of multinational enterprises., op.cit., p. 123.
152. S. Lall and P. Streeten, "foreign investment, transnationals..." in P.K. Tharakan, Multinational companies and a new international division of labour, op.cit.,p.123.
153. Ibid., p. 123.
154. For a comprehensive assessment of these findings and other details regarding the issues involved see: N.Hood and S. Young, The economics of multinational enterprise, op.cit., pp. 212-215. (see also the previous theoretical discussion in Section 2.2 in this respect).

155. Ibid., p. 219.
156. A. Kransdorff, Multinationals and Third World: a gap in Credibility, RIM, Geneva, No.2, May, 1983, pp.2-5.
157. Ibid, p. 2.
158. OECD. Investing in developing countries, Paris, 1983 table 5, p. 25.
159. U.N. The Centre on transnational corporations, loc.cit.
160. R.A. Ajami, Arab response to multinationals, op.cit., pp. 82-85.
161. H.A.M. Osman, Technology transfer in the Sudanese Food Processing Industry, MSC diss. University of Strathclyde, 1983, pp. 37-71.
162. Ibid., p. 136.
163. Ibid., p. 71 and pp. 145-149.
164. ILO Employment effects ... op.cit., table 11.3 p. 27.
165. W. Davidson and R. Suri, "Tracing the multinationals" in ILO.employment effects of multinational enterprises..., op.cit. , table (1), p. 49.
166. Ibid, p. 49.
167. B. Bouattia, Marketing factors and economic development, MSc. diss., University of Strathclyde, 1979, pp.28-33.
168. Ibid, p. 33.
169. R.A. Ajami, Arab response to multinationals, op.cit. , pp. 131-139, and pp. 57-93.
170. Ibid, p. 138.

CHAPTER 3

THE ORGANIZATION AND IMPLEMENTATION OF FDI POLICY IN DEVELOPING COUNTRIES "WITH SPECIFIC REFERENCE TO THE MIDDLE EAST"

Introduction

It has been argued on earlier occasions that a host developing country can not obtain without costs all of the objectives it hopes to realise through FDI. In short, a non zero-sum game instead of a zero-sum one does/or is likely to exist between a host country and a MNC. i.e. There are mutual objectives between both partners of FDI.

Factors influencing FDI decision-making by both FDI partners (ie. the host countries and MNCs) have also been previously considered in detail. It has been argued as well that, FDI impact in developing countries is dependent on several factors. Some of these factors are peculiar to the MNCs while others are peculiar to the host developing states.

As far as the developing host countries are concerned, it could be said that to improve FDI contributions and minimize or resolve difficulties which may arise from MNCs various operations, etc. improvement of investment climate and removal of all impediments facing FDI operations and processes, and the adoption of policies suitably geared to achieving certain objectives, etc. are inevitably required.

As one would expect, FDI policies in many developing host countries may either place greater constraints on the

MNCs operations/investments and other associated activities or eliminate FDI potential and its contributions. The present chapter is therefore concerned with underlying FDI policies in some developing countries.

However, the current chapter should not be considered as presenting a comprehensive assessment of developing host countries' policies towards FDI. Rather it is only a summarised or a preliminary review of the main features of some developing countries' policies in order to serve the objectives of the present study.

More specifically, if there is to be an evaluation of Egyptian FDI policies and practices, it is considered necessary to look at the policies and organizational questions involved in the context of other developing countries' experience.

It is, therefore, proposed to organize the current chapter as follows:

- 3.1 Investment policies and experiences in selected Developing Countries.
- 3.2 Investment Policies and experiences in the Middle East.
- 3.1 FDI Policies and Experiences in selected Developing host countries

There is a proposition that MNCs cannot be forced to operate in a given country, and similarly a host country cannot also be forced to provide access to MNCs operations within its national borders. It could, however, be argued

that on the one hand MNCs may only be attracted or promoted to enter into an overseas market through certain predetermined policies and programmes of incentives offered by the host countries. On the other hand, the host countries concerned must have specific ends it hopes through the policies and programmes of incentives that have been designed to attract MNCs/FDI.

In this connection, it has been argued that LDCs are likely to make errors in their policies towards FDI because of their own economic weaknesses and lack of sophistication. Part of the problem is also that LDCs often have confused and conflicting ideas as to what benefits they hope to obtain from MNCs. Additionally, many governments have not really had a policy at all but have simply thrown up incentives, terms and regulations, restrictions and laws on an "ad hoc" basis according to the dictates of the moment⁽¹⁾. At the same time, case studies of the investment policies and experience of some developing countries e.g. Taiwan, S.Korea, Singapore, Brazil, etc. show that these countries have benefited handsomely from MNCs⁽²⁾. Contrary to these cases, other developing countries have gained little benefit from MNCs/FDI as a result of the previously-mentioned problems.

Leaving the environmental factors in developing countries as a whole aside if it is to succeed, the tools for attempting to maximize the contributions of FDI to these countries' goals are, however, very important. For

the purposes of the current study, the following are the salient features of FDI policies and regulations in selected developing countries, namely Brazil, Mexico, S. Korea and Singapore.

(1) Brazil:

FDI in Brazil continues to play a predominant role. Measured in constant (1980) dollars the total stock of FDI in Brazil (which already amounted to over \$4 billion in 1966) grew at an average annual rate of about 4.7% from 1966 to 1970 and over 15% from 1970 to 1979. The manufacturing sector accounted for approximately 75% of FDI stock in Brazil at the end of 1980 ⁽³⁾. In 1981 net receipts of FDI by Brazil accounted for \$1,256 million ^(*).

Industries with the largest shares of FDI registered in manufacturing at the end of 1980 were: chemicals (13.9% of all FDI), transport equipment (13.4%), machinery (9.8%), electrical and communication equipment (8%) and metallurgy (7.9%). Foreign-owned firms accounted for 25% of sales and 18% of assets in 1975. But, excluding the country's capital-intensive enterprises, foreign firms' shares of sales and assets were about 30% in the Brazilian economy as a whole. Their shares surpass 50% in several manufacturing industries, notably electrical, communications equip-

(*) See statistical data concerning capital inflow in developing countries in chapter (2).

ment, transport equipment, chemicals, rubber, pharmaceuticals, perfumery and tobacco⁽⁴⁾.

The forms of foreign investment policies (equity and non-equity arrangements) in Brazil are as follows:

1) Licensing/technology contracts:⁽⁵⁾ During the 1960s, the data shows a concentration of contracts in the country's major growth industries e.g. transport equipment alone accounted for 40% of all contracts. Metallurgy-special steel) accounted for 11%, electrical and communication equipments for 9.2%, etc. By country of licensors 41% of all contracts were signed with U.S. firms, but these contracts accounted for slightly less than 30% of total technology payments, other western European firms accounted for 62.7% of total technology payments. Additionally, two-thirds of the technology contracts in the 1960s were signed by local firms and about one third by foreign subsidiaries in Brazil. Despite the lack of data for the 1970s on payments of technology contracts, it has been reported that the role of technology contracts appears to have remained largely complementary to FDI in Brazil's manufacturing sector during this period.

Furthermore, licensing agreements with foreign firms must be registered with the Brazilian Central Bank and with the National Institute for Industrial Property (INDI). These bodies assess the value of technology and set a limit on the percentage rates of remittance, each contract being separately considered. The remittances are often limited

to a short period (generally no more than five years).⁽⁶⁾

2) Joint ventures⁽⁷⁾. Except for certain sectors such as banking and communications media, there is no limit to the amount of capital a foreign company may invest in Brazil in any one Brazilian company. There are advantages in a joint venture, especially a Brazilian - controlled one, apart from market knowledge and established distribution facilities. Brazilian-controlled companies are eligible for federal investment incentives which do not apply to foreign-controlled firms and government contracts may normally be awarded only to Brazilian firms.

Nevertheless, according to Guimaraes, et al., the new form of investment in Brazil is the minority - foreign-owned joint venture with either local private partners or with state-owned firms (partner).⁽⁸⁾ It has also been reported that such types of investment have gained some importance particularly in a number of growth industries.

3) Wholly-owned subsidiaries. As demonstrated earlier, the establishment of a foreign-wholly-owned subsidiary - Taking into account what has been mentioned in (1) and (2) tends to play a significant role in Brazilian FDI. But it appears that licensing and joint ventures investment offer more scope for most MNCs if it is intended to enter the Brazilian market.

4) Moreover, there are accesses for exporters to Brazil through e.g. an agency agreement and Free Trade Zone. Meanwhile, import duties in Brazil have for years been prohib-

itively high for consumer goods particularly, sometimes in excess of 200% on the C.I.F. value. For machinery and equipment, import duties are lower (usually between 15-55%) and may be nil⁽⁹⁾. These are in addition to other taxes levied on imported goods.

5) Management contracts and Turnkey operations appear to be of no major importance in Brazil. It is important to note that import substitution and export oriented industries in Brazil are being encouraged. On the one hand, the government has been able to push firms into buying large proportion of their inputs from local sources. Empirical evidence suggests on the other hand that there are MNCs which started by substituting for imports and have grown into internationally competitive enterprises with substantial export interests (e.g. VW)⁽¹⁰⁾.

In terms of investment incentives, it has been generally reported that^{(11),(12)}:

1. There is no restriction on remittance of profits, capital and/or royalties. But all remittances, incur withholding tax which rises steeply when remittances exceed a certain percentage of capital.
2. In general, there is no limitation as to the citizenship of shareholders or members of the Firm's Board of Directors (but they must be resident in Brazil). The ~~percentage~~ obligatory proportion of national employees is 66.6%.
3. Under certain promotion schemes - depending on location and nature of the industry - tax incentives for

new investment can be granted. e.g. new industrial projects of special significance such as in high technology industries, any manufacturing project to be established in the less developed areas, local developments in the various states, export subsidies, etc. are subject to several forms of incentives such as exemption from sales taxes and corporation income taxes, subsidised finance, factory rental at subsidised rates, exemption from import duties on e.g. plant, machinery and components, etc.

4. Finally, there is neither restriction on the wholly-owned foreign subsidiaries, nor fixed percentage of shareholding to be held by local citizens.

5. A special priority and various incentives have been given to both import-substitution and export-oriented investment in Brazil.

(2) Mexico-

According to OECD, Mexico is considered as the second largest developing country in Latin America - after Brazil - in which MNCs investments and activities are centred. In 1977 FDI in Mexico amounted to \$5,070 million, i.e. about 12.4% of the total \$41,045 million invested in the ten largest developing countries which were recipients of FDI in 1977 ⁽¹³⁾. Additionally, of \$55.6 billion estimated stock of DAC FDI in 1981 in newly Industrializing countries, Mexico's share was \$10.3 billion. Mexico's net receipts of FDI in 1981 amounted to \$1,154 million ⁽¹⁴⁾. Furthermore,

it may be useful to point out that MNCs in Mexico represent a large and growing force in Mexican manufacturing (of total GDP, MNCs accounted for 23% in 1970, while in 1962 they accounted for 18%)⁽¹⁵⁾.

Joint venture, licensing are very important forms of FDI in Mexico, while wholly-owned subsidiaries are permitted only if of special interest to the authorities⁽¹⁶⁾. According to the 1973 code, the government provides for only minority ownership by foreigners of any new investments or expansion into new product lines, by existing firms. In exploration and processing of minerals, only 49% can be held by foreigners, reduced to 34% when the concession relates to national mineral reserves. In secondary petrochemical products and auto and truck components only 40% can be held by foreigners; in other sectors foreigners can hold no more than 49% and cannot by any means whatsoever obtain control over management of the company⁽¹⁷⁾. By the late 1970s, joint ventures in which substantial amounts of FDI from both state - and privately owned "major" and independent petroleum companies are involved (but in which the host country retains majority ownership), and contractual arrangements with no foreign equity participation, have almost replaced the wholly foreign-owned FDI particularly in petroleum extraction as in the other developing countries⁽¹⁸⁾.

International subcontracting is of some importance in Mexico, but the importance of this particular form does

not appear to be growing compared with the other forms of FDI⁽¹⁹⁾. In terms of import-substitution, and export-oriented investments, Mexico had provided a wide array of incentives to encourage these types of investment. In 1978 for example, the government of Mexico issued a decree allowing the auto industry to import, duty free any "new and completely modern" machinery and equipment, raw material etc. that could not be produced locally. Components and raw material "indispensable" to uninterrupted production for export - even if producible locally - could be imported at 25% of the tariff level of non-indispensable parts, etc. all MNCs could avail themselves of these incentives so long as they met local content and export requirements⁽²⁰⁾.

As in Brazil, in Mexico tax incentives for certain industries and in certain areas can be offered, while in the petroleum and basic petro-chemicals and telecommunications industries, such incentives are not available to foreigners. Also there is no restriction in repatriation of capital, profits and/or royalties and in general there is no limitation as to citizenship of shareholders or the members of the Board. Contrary to Brazil, the obligatory proportion of national employees is 90%. The obligatory percentage of shareholding to be held by local citizens in the investment venture is 51% in most cases⁽²¹⁾. In Mexico, there are also restrictions on land ownership⁽²²⁾.

Finally, the proclamation by the Mexican government on technology transfer requires registration of all licenses

covering patents, technology and trademarks, and legal rights and protection are lost if licenses are not registered. The grounds for refusing to register contracts in the Mexican national register for technology transfer involve any agreements relating to^{(23),(24),(25)}:-

- 1) Transferring knowledge already in the public domain i.e. available in the country free of charge or under more advantageous conditions, etc.
- 2) Returning royalties that are too high i.e. when the price or the compensation is not related to the technology acquired or it constitutes an unfair levy on the national economy.
- 3) Giving managerial control to the licensor. i.e. when the clauses are included whereby the supplier is permitted to control or intervene (directly or indirectly) in the administration of the party acquiring the technology.
- 4) Requiring return of improvements or inventions by the licensee.
- 5) Limiting R & D efforts by the licensee.
- 6) Prohibiting use of other supplementary technologies.
- 7) Limiting exports in a manner contrary to the national interest.
- 8) Containing requirements that the licensee purchases equipment, materials or parts exclusively from a specified supplier (or an exclusively determined origin).
- 9) Specifying personnel that must be employed as might be indicated by the supplier of technology.

- 10) Requiring that the licensee sell exclusively to the licensor.
- 11) Setting the volume of production or prices of sale or resale.
- 12) Requiring the signing of exclusive distribution contracts with the licensor for the national market.
- 13) Including excessive periods of duration of the contract - such period not to exceed 10 years.
- 14) Stipulating the jurisdiction of foreign courts - Mexican law shall prevail.

As all governments are naturally concerned about the role played by FDI, Latin American governments have enunciated a number of matters of concern over U.S. foreign investment. In the early 1970's some governments stated explicitly the criteria by which they will judge the appropriateness of each investment. In short, the criteria that would guide determination as to the significance of FDI contributions and potential problems are numerous. They include at least the following imperatives (as taken from official proclamations and views expressed in several countries), e.g. ⁽²⁶⁾;-

1. FDI must not displace national investors or enter sectors adequately supplied by national companies.
2. FDI must increase employment at all levels.
3. FDI must develop local resources, depressed areas, use and assist local suppliers and entrepreneurs, etc.
4. FDI must not increase monopolistic tendencies in the market.

5. FDI result in an improvement of quality of products and a lowering of prices.
6. FDI result in a reduction of the ties of the local affiliate to decision centres abroad.
7. FDI contribute to R & D and create positive balance of payments effects.

Broadly speaking, if the foreign investors conform to the above requirements it is possible that the concern felt by governments or the tensions over the presence of MNCs might be removed. Meanwhile, it could be argued that the balance between the benefits and costs of FDI is rather complex i.e. it is not the question of the appropriateness of the criteria or imperatives perse, rather the balance between FDI costs and benefits.

(3) South Korea:

Korea's reputation as a relatively open economy which welcomes FDI - might lead one to expect that FDI tends to dominate the economy. The estimated stock of DAC FDI in Korea at the end of 1981 accounted for about \$1.6 billion (out of \$55.6 billion estimated stock in all NICs), while the net receipts of FDI by Korea accounted for \$260 million in 1981⁽²⁷⁾.

According to Koo⁽²⁸⁾ and others, Korean policy on FDI may be roughly divided into three phases. In 1960, the first legal basis was drawn up the aim of which was to induce foreign investment. No regulations were imposed

on foreign ownership and extensive incentives were offered but these early attempts to attract FDI met with relatively little success due to investors' concern over the country's unproven political stability and uncertain economic outlook. Relations with Japan were normalised in 1965, further support measures were introduced in 1967 and 1969, and in 1970 the first free export zone was established. "It was not until the late 1960s and particularly the early 1970s that the inflow of FDI began to accelerate, notably Japanese investment in export-oriented manufacturing firms"⁽²⁹⁾.

A major policy change occurred in 1973, when high priority was given to joint ventures (until the late 1970s 50% foreign ownership as the maximum in principle was determined although there were a number of grounds for exception).

The third phase of Korea's policy began in September 1980, with substantial liberalised guidelines established on minimum amounts of investment and areas of investment and majority - and wholly foreign-owned investment allowed in many more cases. The aim of the new guidelines is reported to promote the technological development of more sophisticated industries and to enhance the efficiency of previously protected firms by promoting greater competition in Korean industry.

As to the contribution of FDI to gross capital formation in Korean manufacturing, the official statistics

show FDI to have accounted for barely over 5% of gross capital formation in manufacturing for the 1962-1980 period as a whole (but the proportion varied considerably from one industry to another and from one period to another)⁽³⁰⁾.

Turning to other forms of investments, it has been reported that in post-colonial Korea the turnkey contract was the first form, where a fair number of such contracts were used by the state to develop such intensive-capital industries as petrochemicals, chemical fertilizers, synthetic fibres, etc.

Management contracts do not appear to have ever been of any significance in the capital-intensive industries particularly. As to the role of international subcontracting, the data available relate to bonded processing industries which show exports from these industries to have declined in importance from 24% of Korean exports in 1974 to 9% in 1980 i.e. international subcontracting has been of decreasing and, in recent years, limited importance in Korean manufacturing⁽³¹⁾.

As the relatively high proportion of minority-foreign and 50/50 joint ventures viewed for the 1962-1980 period as a whole is probably more important for highlighting the importance of these forms of investment, the second principal form of investment in Korean manufacturing appears to be the growth pattern of international licensing. The number of agreements signed from 1962 through 1965 averaged about four per year, then grew from 1966 (18 contracts) through

1970 (92 contracts), representing an average growth of almost 50% per year, in the late 1960s. The number of agreements signed in 1971 fell to 47 but then steadily grew to 296 in 1978, representing an average annual growth rate of about 30% during the period. And finally, just as the growth of FDI tapered off in 1979 and 1980, so the number of licensing agreements signed in these two years declined slightly to 288 and 222 respectively⁽³²⁾.

Finally, based on the Far Eastern Economic Review in 1977, the incentives for FDI offered by S. Korea can be summarised as follows:⁽³³⁾

1. Tax holiday and accelerated depreciation: From 3-5 years corporate tax exemption depending on type of business.
2. Tax holiday extensions: 50% of taxes for 3 additional years.
3. Personal tax incentive: expatriate employers receive lifetime exemption if employed by a company established under the foreign capital inducement law.
4. Capital goods for investment purposes are exempted from tariff treatment of capital goods.
5. Tariff treatment of raw material not available outside the Free Trade Zone with the exception of re-exported items.
6. New industries get some import tariff protection, and export industries get first consideration.

7. Capital incentives e.g. grants and loans are limited to Korean joint ventures.
8. Export incentives include business tax exemption, import duty exemption, depreciation allowance, direct and indirect subsidies, special loans and tariff protection.

4) Singapore

The stock of FDI in Singapore grew at an average annual rate of over 40% from 1966 through 1973, at slightly under 12% from 1973 to 1977, and at about 24% from 1977 to 1979⁽³⁴⁾. And the estimated stock of DAC FDI in Singapore at the end of 1981 amounted to 3.9 billion. i.e. more than two times of the Korean one⁽³⁵⁾.

In terms of FDI policies in Singapore, Fony⁽³⁶⁾ has reported that:

1. Although the wholly- and majority- foreign-owned firms have consistently received the lion's share of FDI, their dominance has been further reinforced in recent years. While wholly and majority foreign-owned firms accounted in 1979 for only 1 in 5 of the number of firms in Singapore, they accounted for over 50% of gross fixed assets and employment, 64% of value added, 72% of output and 84% of direct export sales⁽³⁷⁾. Foreign-owned firms dominate the major industries e.g. electronics, oil refining, rig and shipbuilding, precision engineering and industrial

machinery. In general, national ownership of industrial firms has never been emphasized by government policy in Singapore. Nor have any restrictions been placed on FDI since 1960.

The contribution of wholly and majority foreign-owned firms to gross capital formation in manufacturing rose from 45% in 1966 to 86% in 1972, fell back to around 74% in 1973/75 and increased to 81% by 1979⁽³⁸⁾.

2) Joint ventures have received some government encouragement, more as a means by which local firms can acquire expertise and technology from foreign firms than as a method of controlling foreign investment. In the early 1970s investment incentives and choice industrial sites were sometimes used by the State's Economic Development Board to promote joint ventures, and in 1975 a Bureau of Joint Ventures was set up to help foreign investors find joint venture partners.

The contribution of joint ventures to total employment in manufacturing was about 20.3% in 1966, 35.6% in 1975 and 32.8% in 1978. Whereas the share of joint ventures in output, value added and export sales remained relatively constant, it has been reported that the share of wholly foreign-owned firms grew markedly. For example, foreign firms' share of output rose from 31% in 1966 to almost 60% in 1978, as compared with shares of about 23% in both years for joint ventures, foreign firms' share of export sales rose from 33% in 1966 to over 70% in 1978, versus 24% and 21% for joint ventures⁽³⁴⁾.

As regards the use of non-equity forms of investment in Singapore manufacturing, licensing agreements are more common than management and turnkey contracts (but they are usually associated with FDI, notably Japanese investment). While contractual arrangements are quite common in domestically oriented firms.

Singaporean firms with less than majority foreign equity which use licensing or management contracts are relatively few - reportedly accounting for 10% of recently established firms - and most of them are relatively small and use mature technologies⁽⁴⁰⁾.

Furthermore, according to Lasserre⁽⁴¹⁾, one of the major tools to attract foreign investment and technology has been the establishment of Free Trade Zones in Singapore. Singapore has developed 14 zones representing a workforce of 105,000 persons⁽⁴²⁾. Foreign firms in general were given financial and fiscal facilities to establish factories in well-equipped industrial states. In addition, several types of incentives have been granted to export-oriented investments e.g.⁽⁴³⁾ : (a) there is no restriction on land utilization, (b) no restriction on company management, or employment of foreign nationals in technical and professional position and (c) no restriction on remittance of profit, capital, access to local finance, etc. Finally, it could be argued that the most probable conclusion one can make in the case of Singapore appears to be that the

wholly and majority foreign-owned subsidiaries and joint ventures (minority/or majority equity participation by local firms do play a role of considerable importance particularly in the manufacturing sector.

Concluding Comments:

The previous discussion regarding FDI policies and experiences in four developing countries shows that in most countries reviewed the important forms of FDI are joint ventures and licensing agreements in manufacturing sector in Mexico, Brazil and Korea). The role played by licensing agreements in manufacturing industries in Singapore is somewhat limited compared with the other countries reported. Compared with Korea, Brazil and Mexico, the wholly and majority-foreign-owned firms continue to apply a complementary role to a significant extent in manufacturing output, capital formation, employment etc. in Singapore.

Moreover, most of contractual agreements (management turnkey and international subcontracting appear on the whole to be of limited significance in the manufacturing sector in all countries reviewed (although international subcontracting is of some importance in Mexico).

Although the official measures and policies of FDI seem to vary somewhat among the four countries reviewed, it could be argued that the incentives programmes designed to attract FDI, or the measures imposed on e.g. ownership and some activities of MNCs, etc. are generally geared to

specific objectives. For instance, incentives specific to favour the location of investment in particular regions are restricted to investment approved or actually taking place in these regions. i.e. investment incentives offered to promote investment in the depressed areas do not apply to investments in other developed regions.

Because of growing competition between developing countries for attracting foreign investment, all governments now offer a wide range of incentives. As clearly appears from exhibit (B-6)^{*} which displays types of incentives offered by Taiwan, Singapore, Malaysia and Philippines, similarities and differences exist between these nations' incentives programmes and those design/offered by the four countries investigated earlier. Meanwhile, it has been recently reported that Asian countries are adding to what can only be termed a cornucopia of aid possibilities. Singapore provides accelerated depreciation, tax holidays and low interest government loans; Malaysia waives taxes for up to ten years if the foreign investors locate in the rightplace and meet export quotas; and India gives out direct capital grants if the investor builds a plant in depressed areas. In Sri Lanka, Motorola elected to build a semi-conductor plant in Sri Lanka's investment promotion zone (near the Colombo airport), an area where the government ensures tax-free treatment for up to ten years, negligible taxes on exports, telephone lines and roads, etc. (44)

* On the following page.

Exhibit (B-6) Incentives for foreign investment and comparison of policies between a country pursuing an export-oriented policy and a country pursuing an import-substitution policy.

Type of Incentive	Taiwan (1)	Malaysia (1)	Type of Incentive	Taiwan	Malaysia	Philippines (2)	Singapore (2)
Tax holiday and accelerated depreciation	3-year income tax exemption, or accelerated depreciation.	2 years' exemption from company tax, development tax, dividend tax and payroll tax.	Tariff treatment of capital goods.	For electrical engineering, electronics machine manufacturing and some other basic industries with paid-up capital US\$ 2.63 million or more, duties on equipment are exempted. Duties on equipment used by other industries may be made by instalment.	Capital goods for investment are exempt.	Import substitution)	(Export oriented)
Tax holiday extensions	4-year income tax exemption on reinvested earnings	3-8 years total depends on number of employees, and amount of investment and location in non-urban areas. Losses carried forward indefinitely.	Tariff treatment of raw materials.	Refunding or bonding of payable taxes and duties on imported raw materials used in export products.	Raw materials used for production are duty exempt.	Land can only be owned by companies with at least 40 per cent Philippine equity.	No restriction base on industrial estate.
Investment allowance	None	For industries not eligible for tax holidays or pioneer taxes. Consists of tax credits of 25-40% of capital expenditure.	Import protection tariff	None	Tariff protection usually available for new industries	Management by Philippine required wherever Filipinos majority equity is required.	No restriction
Personal tax incentive	None	None	Free trade zones	Yes	Yes	Companies receiving incentives may not employ alien after the first 5 years.	Employment of foreign nationals in technical and professional positions
			Capital incentives	Priority firms may obtain land and buildings at favourable rates. Industrial estates are available	Government sponsored loans, special terms on factory sites and special rates	Unrestricted	Unrestricted
			Export incentives	Tax credit equal to 2% of export receipts. Instalment payment of duties.	Accelerated depreciation allowance double deduction of overseas promotion expense, export allowance based on increase in exports.	Unrestricted	Unrestricted

Sources: (1) Quoted from Far Eastern Economic Review, Inc. (2) Quoted from The ASEAN Report, et al., Loc. Cit.

In Latin American countries, e.g. Mexico, the government's subsidize new business and impose heavy financial penalties for employee termination (in Mexico up to two years' pay is a routine termination settlement)⁽⁴⁵⁾.

Nevertheless, it has been argued earlier that country-specific factors rather than the types of incentives granted to MNCs play an active role in terms of attracting more foreign investment. ie. a host developing country with a limited market potential, for instance, may attract a small size of FDI despite the incentives offered (see Chapter (1)).

Meanwhile, many developing countries use performance-oriented policies designed to control the operations of MNCs, for example, by requiring them to use domestic inputs and labour or to engage local management partners and by controlling their access to the local financial markets. Sometimes a minimum share of exports is also imposed on the production of foreign enterprises. Performance requirements are often combined with outright restrictions for foreign investors (e.g. barring MNCs from sensitive sectors such as defence, public utilities, etc)⁽⁴⁶⁾. As demonstrated in some of the previously-analysed countries, there is evidence to suggest that foreign equity in some economic sectors is limited to minority participation unless a country wants to attract some investment of special technology content. In short, the host countries may offer investment incentives side by side with performance requirements and investment restrictions.

In this connection, it is probably relevant to point out that granting incentives implies explicit pre-conditions and performance requirements in the OECD Member countries. The measures associated with incentives offered are applied only if investment does contribute to achieving specific objectives. For instance,⁽⁴⁷⁾: employment requirements for some investment incentive programmes are found in countries such as Canada, France, Ireland, Italy, Spain and the U.K. where output and sales requirements are also sometimes imposed. In Sweden, requirements concerning training of the labour force and protection of the rights of employees - in addition to employment creation - are also imposed. Moreover, requirements related to trade e.g. export requirements, are imposed for some incentive programmes in New Zealand and Spain, while the latter country also imposes local content requirements in which some incentives are granted only if the imported goods related to the investment project are not otherwise available in the country.

Once again, although the investment incentives and related preconditions or performance requirements, may generally be considered as an effective method in relation to the contribution potential of FDI to the host countries concerned, it has been found (in a study prepared by the OECD) that the incentives and other associated pre-conditions and performance requirements have influence only slightly on MNCs decision regarding e.g. location, size of investment, etc. in OECD countries^{(48),(49)}.

What conclusions can, however, be drawn about the relationship between granting incentives and the associated preconditions/performance requirements in relation to attracting more FDI ? Generally speaking, it is difficult to make an accurate generalisation with regard to whether or not such measures do play a role of considerable importance as to the contributions/costs of FDI, or the inflows/outflows of FDI in the host country.

While it is possible to conclude in one situation that one incentive or a combination of incentives associated with certain performance terms has actually created some benefits e.g. a large number of new jobs, it could be risky to assume that the same benefits can be realised under the same combination of incentives offered and conditions imposed in another situation (because of e.g. the host country-specific factors).

Perhaps from the MNCs point of view investment incentives are the happy side of the coin. On the reverse are the disincentives or conditions the host country imposes on corporate beneficiaries. In this respect, Weigand⁽⁵⁰⁾ has argued that these performance requirements include job creation quotas, export minimums that generate foreign exchange etc. One of the most threatening is a provision, variously called a give-back, claw-back, or the other-edge-of-the-knife clause, that calls for penalties if the entry contract conditions are not met.

Finally, from the host developing countries' side,

preconditions and performance as associated with the incentives offered to MNCs will probably contribute to the former's benefits. At the same time MNCs will be increasingly selective in terms of the location of their overseas investment/comparing carefully the situation not only between developing-developed markets, but between the developing markets as well (even on the level of the individuals developing market MNCs may make comparisons between the prospects of the regions within which they will locate their investment regardless of the incentives considerations).

3.2 Investment policies and experiences in the Middle East

The profile of Middle Eastern countries (which has been presented in Chapter One) surveying their characteristics, provides an overall assessment of the climate for FDI in general. It has been assumed that most - if not all - developing countries have come to realize the possible contributions of FDI to their overall development/progress. Also with all potential adverse influences of such investments in mind, it could be argued, however, that all the Middle Eastern countries - even the most politically radical countries - seem to accept the importance of FDI and deal with foreign investors/MNCs as a method of stimulating and developing their economic and social progress.

As factors in relation to whether or not the Middle Eastern countries are willing to benefit from FDI (or to

pay higher costs for receiving the benefits of this type of investment) have been considered earlier, the present section is concerned with reviewing the policies and experiences of selected Middle Eastern countries towards FDI. As previously mentioned, such a review of policies and experiences would help to indicate policy changes which would improve the FDI position/the prevailing policy stance in Egypt.

Thus, the following is a summarised profile of policies, organizational aspects and experiences regarding FDI in selected Middle Eastern countries (namely Algeria, Tunisia, Saudi Arabia, Jordan, ~~Israel~~ and Syria).

(1) Algeria

Algeria is a state-run economy, where the state owns most of the economic firms/activities: oil, heavy industry, textiles, and food processing. Consumer-goods are, therefore, under the control of private sector^{(51), (52)}. In other words, after independence almost all foreign firms have been nationalised and national state monopolies were set up in most sectors of the economy.

According to Khodja⁽⁵³⁾ and others the salient features of Algeria's experience with FDI can be summed up as follows: (1) though Algerian legislation has never formally prohibited FDI, both local and foreign private investment have generally been discouraged. Capital formation in Algeria which grew at an average rate of over

30% per year from 1967 to 1978, has thus been based almost on contractual relations between Algeria's state enterprises and foreign firms involving no equity investment in the manufacturing sector (or through the provision of financial capital by foreign firms) which was oriented towards the local market throughout the 1960s and 1970s.

(2) During the three-year plan of 1967-1969, considerable emphasis was given to rationalizing the supply of investment resources from abroad. Separate contracts for the delivery and setting up of plant and equipment were the general rule during this period. During the first four-year plan of 1970-1973, turnkey contracts gained increasing importance and the first 'product-in-hand' contract was signed⁽⁵⁴⁾. With the second four-year plan (1974-1977) turnkey and product-in-hand contracts became the general rule not only in terms of the amount of investment, but also as to the number of contracts.

(3) As to the type of MNCs involved in the contractual arrangements, engineering firms dominated in virtually all industries, generally working alone in such industries as steel, chemicals, and construction materials, sub-or-co-contracting with licensors of technology and manufacturing firms in other industries, notably motor vehicles.

(4) the government has opened its door-though banning concession type oil investments - to foreign investors in joint venture arrangements with the state-run

oil company, "Sonatrach", which has a controlling interest in such arrangements⁽⁵⁵⁾.

(5) Joint ventures have been recently encouraged in Algeria in sectors other than oil. The country's new policies on FDI, implemented as of mid-1982, which appear to place less emphasis on turnkey and product-in-hand operation relative to FDI, may reflect the desire to encourage MNCs' participation. More specifically, Algeria has recently moved further towards encouraging joint ventures with foreign companies particularly those in electronics, housing, and consumer goods, and has promised also to institute changes in the countries' investment regulations, tax holidays, etc⁽⁵⁶⁾.

The common criteria taken into consideration by the Algerian government for negotiating with foreign firms in the manufacturing sector could be summarised in two broad terms (i.e. technological and financial)⁽⁵⁷⁾: The technological term includes usually the image of the partner on international market, the quality of the production factors, the possibilities of having a fair level of local content in the final product and experience in export marketing. The second term/aspect includes the conditions and timing of credits allowed and timing and methods for achieving the project. Once the financial conditions are agreed, the purpose of a joint-venture with MNCs is concentrated on the engineering side which is aimed at speeding up the transfer of technology.

Because the turnkey contract gives the foreign partner (at the early stages) complete control over the project, the extent to which the local personnel happen to have access to the decision-making as regards to the types of equipment purchased, control of the ongoing work and consequently the ability of the trainees to supervise and manage the whole project once finished⁽⁵⁸⁾ is considered important.

Criteria for granting incentives to foreign investment in agriculture and related industries are generally the use of local resources/value added, import-substitution and key sector/pioneer industries⁽⁵⁹⁾.

In short, the foregoing review, it could be established that non-equity arrangements/contracts with the MNCs appear to be of major importance in the manufacturing sector in Algeria. Joint venture investments is increasing substantially in the oil industry (is growing gradually in manufacturing and non-oil activities).

(2) Tunisia

Since 1969 Tunisia has taken several steps to attract FDI. The government has also placed a greater emphasis on private investment in fields other than oil and phosphate sectors. This emphasis manifests itself through economic liberalization policies introduced in April 1972. The main objective of these policies was to attract foreign and domestic private capital⁽⁶⁰⁾.

The existing major forms of foreign investment in Tunisia are joint ventures, international subcontracting, and Free Zones investments. Foreign investment in general is controlled by the Agence de Promotion des Investissements (API) since 1973. API is the sole channel of communication between foreign investors and the authorities concerned. The investors, however, must apply to the API which in turn makes recommendations to the Tunisian Ministry of National Economy⁽⁶¹⁾.

As to the investment incentives offered by the government it has been reported that⁽⁶²⁾:

(1) According to Law 72/38 of 1972 a wide array of incentives has been granted to the export-oriented manufacturing enterprises. e.g.:

A. freedom from tax on profit for the first 10 years and reduction by 10% over the following ten years.

B. No customs of import duties to pay on imports of capital goods and raw materials, spare parts, etc.

(2) With regard to the type of investment other than export-oriented projects: the 1974 code which is concerned with encouraging domestic manufacturing for the domestic market in less developed regions, provides incentives on the basis of the following criteria:

A. The investment must create at least 10 new permanent jobs and be at least 30% self-financed.

B. The degree of integration between projects and the national economy.

C. Investment must be made in an area which is approved by the authorities.

According to these criteria, the fiscal incentives which can be offered include:

a. Tax relief on income/profit, varying customs duties and turnover tax exemptions, b. free repatriation of profits and capital is allowed., and c. tax holidays particularly for the basic infrastructure projects.

(3) Moreover, Tunisia signed a double taxation agreement and a memorandum of understanding with the U.K. in 1982, and she has ratified the international convention for the settlement of investment dispute.

Finally, it may be useful to note that since it was put into effect, the law 72/38 of 1982 has attracted a respectable volume of investment, e.g. from 1972 up to 1975 the number of Tunisian export-oriented industrial investment accounted for about 280 projects (textiles, mechanical & electronics, chemicals, building materials, food and food processing ,etc), with a total investment of about TD* 114.1 million⁽⁶³⁾.

As the Tunisian sees it, this strategy helps to solve the problem of manpower surplus (about 33,905 being the number of jobs created during 1972-75). In addition, this strategy exposes the Tunisian economy to advanced technology⁽⁶⁴⁾.

(*) TD = Tunisian Dinar (TD 0.75 = \$1.0, June 1984).

(3) Jordan⁽⁶⁵⁾

Jordan is in general favourably disposed towards FDI and in principle 100% of foreign ownership of an enterprise may be allowed. In addition to Free Zones investments, joint venture, and other contractual arrangements'.

The Ministry of Trade and Industry is the main agency responsible for granting FDI projects' approval, in collaboration with the Encouragement of Investment office. According to the law promulgated in 1972, the following privileges are available for foreign investors:

- (a) exemption from import duties on fixed assets and spare parts.
- (b) exemption from taxes on profit and income and social security for at least six years.
- (c) exemption from property taxes for at least five years.
- (d) free grants of state-owned land outside Amman.
- (e) transfer profits and capital is allowed in three equal annual instalments commencing two years after production starts. But this type of incentive is subject to the approval of the Council of Ministers^(*).

(*) Guarantee against nationalisation and fair compensation for all foreign products are granted by the provision of Law.

Moreover, in 1978 the government issued a decree concerning the encouragement of local and foreign investments in the Free Zones. All exports of goods produced in the Free Zones have therefore been exempted from tax for 12 years, commencing a year after output begins.

Above all, under the 1984 encouragement of Investment law the country is divided into regions for the purpose of eligibility for incentives:

- (a) investment in Amman and Aqaba will receive the fewest incentives.
- (b) investment in the South West desert areas will receive the most.
- (c) other regions are classified as intermediate.
- (d) tax holidays ranging from 7 years for the lowest aid regions and to 12 years for the highest ones.

(4) Saudi Arabia

Saudi Arabia follows a laissez faire economic policy and therefore foreign investment has always been encouraged without restrictions. Technology imports play a substantial role in Saudi modernization⁽⁶⁶⁾. As illustrated earlier, net receipts of DAC FDI by Saudi Arabia grew markedly despite the drop in her direct investment receipts in 1980 due to the reasons outlined before (the amounts of these receipts from 1978 to 1981 were: \$54 million in 1978 73 million in 1979, 27 million in 1980 and 42 million in 1981)⁽⁶⁷⁾.

Joint ventures as a form of foreign investment seem to dominate the country's FDI policy. But the country has also laid special emphasis on the development of science and technology to meet the needs and conditions of the country. Therefore, international licensing has become a popular and accepted mode for technology acquisition by industrial enterprises in Saudi Arabia. Licensing agreements signed by 20 sponsors of Saudi industrial firms with MNCs as shown in table (B-47) can be divided into three types:-
(*)

- a. licensing agreements for use of foreign trade-marks (5% of firms surveyed).
- b. licensing agreements to acquire technical know-how (15% of the firms).
- c. licensing agreements involving the use of trade-marks and technical know-how (80%).

Broadly speaking, the main features of Saudi's foreign investment policy can be summarised as follows⁽⁶⁸⁾:

(a) MNCs wishing to establish a direct presence in the Kingdom have several options depending on their business. All firms wishing to serve the private sector need a foreign capital investment licence. Firms performing work only for the government can take out a temporary licence issued by the Commerce Ministry. It is valid for the duration of a single project, limits a company to public sector work and makes its profits liable to full taxation unless the contract specifies an exemption.

(*) For table (B-47) see following page.

Table (B-47) Categories of Licensing Agreements Between the Selected Industries and the foreign companies (classified by type of industry)

No.	Type of Industry	Trademarks	%	Categories of Licensing Agreements				Total	%
				Technical know-how	%	Trademarks & Technical know-how	%		
1	Bakery products	1	5%			1	5%	2	10%
2	Soft Drinks					4	20%	4	20%
3	Leather Doors					1	5%	1	5%
4	Paper Products					1	5%	1	5%
5	Paints			1	5%	2	10%	3	15%
6	Chemical Products					3	15%	3	15%
7	Plastic Products			1	5%			1	5%
8	Non-Metallic					1	5%	1	5%
9	Metal Furniture					1	5%	1	5%
10	Air-Conditioning					1	5%	1	5%
11	Light Fittings			1	5%			1	5%
12	Motor Vehicle Assembly					1	5%	1	5%
	Total	1	5%	3	15%	16	80%	20	100%

Source: N. Hualla, et.al., Technology acquisition in selected industries in S. Arabia, unpublished working paper, 1982, p.7.

(b) To establish a permanent base in the country, a foreign firm may set up a permanent branch or form a limited liability company.

(c) A limited liability company must be at least 51% Saudi-owned and a licence must be obtained from the Industry and Electricity Ministry.

(d) The most chosen option and incentives are available only to locally-based joint ventures and include low cost rents and utilities and exemptions from import tariffs.

(e) A number of incentives are available e.g. income tax holidays, preferential treatment, company income tax concessions, etc. but the major considerations before an investment licence is granted are whether the project is consistent with Saudi development plans, the type of activities involved are participation of the indigenous investors in the investment projects.

Finally, the Commerce Ministry and the Industry and Electricity Ministry both have responsibility for issuing foreign investment licences, but all applications are scrutinized by the Foreign Capital Investment Committee (FCIC).

(5) Israel

Active encouragement is given to foreign investment in Israel, especially in technologically advanced, capital-intensive industries with a high element of value added. In 1982, the net inward foreign investment totalled \$114

million⁽⁶⁹⁾, while the estimated stock of DAC FDI in Israel at end-1991 was \$1.2 billion⁽⁷⁰⁾.

The experience of Israel is probably an interesting one in the context of the Middle Eastern countries' experiences/policies towards FDI in general terms. Not only because the Israeli government permits 100% foreign ownership - without any restrictions - compared with other Middle Eastern countries, but also because the government encourages the establishment of investment companies that will funnel capital into its country and management firms for the supply of managerial manpower, know-how for new industries, etc. According to Aharoni⁽⁷¹⁾, it appears that this type of investment firm has been encouraged since the 1960s. The existence of the specialized investment companies is an important stimulus to other businessmen and to the inflow of FDI. "They fulfilled the entrepreneurial functions of recognizing opportunities, discovering sources of capital, and co-ordinating capital, management, and know-how". Additionally, "they were instrumental in helping other investors by supplying first-hand information on Israel and aiding the investors to overcome initial difficulties and find their way through the red tape", and finally "the steady stream of dividend payments was of material aid in creating an image of Israel as a place where one can do business"⁽⁷²⁾. It is also interesting that export-oriented industries are being encouraged particularly⁽⁷³⁾.

The salient characteristics of Israeli FDI policies can be summarised as follows⁽⁷⁴⁾:

(1) As to FDI forms, FDI particularly in the form of joint ventures is sought in the metal-working, textile, fashion, food-processing, electronics and telecommunications industries. As mentioned before, the establishment of wholly-foreign affiliates is permitted. This is in addition to Free Zones investment of Haifa and Eilat.

(2) In granting incentives, for foreign investment, criteria and pre-conditions performance requirements related:

(a) the Israeli government considers export prospects, including the export of services, but eligibility for investment grants is based on performance instead of just export commitment.

(b) Grants and loans are increased if the investment is established in development areas, provided that the required export criteria are met.

(c) The owners of investment ventures are also expected to provide paid-up capital equivalent to 30-50% of total fixed assets in order to qualify for the incentives available.

(d) Enterprises in the free zones may be granted exemptions from income and property taxes for the first five years and they will also be free of customs control and direct control by government supervision. But they must undertake to export at least 90% of their output.

(e) Among the range of incentives available for approved

investment are: development loans, the provision of industrial buildings at cheap rents with free infrastructure, low interest loans for working capital for export production, financial support for R & D, tax concessions and depreciation allowances and assistance with training, etc.

The Government of Israel Investment Authority retains the sole responsibility for FDI affairs. Nevertheless, there are 8 offices in some European countries and U.S. to offer help to foreign investors, especially those willing to enter into partnership with local firms⁽⁷⁵⁾.

6) Syria, A. Rep. of.

In general, the Syrian economy is largely controlled by the government. Opportunities for FDI are therefore relatively limited. All industries in Syria are supervised by a group of general bodies to which are attached many branch companies and factories e.g. the general establishment of chemical industries and so forth⁽⁷⁶⁾. Foreign investment with private sector's partner is thus very limited in Syria.

Nevertheless, in 1971 the Syrian government promulgated a new law which, with the subsequent legislations enacted have the principal affect of relaxing various aspects of regulations concerning foreign investment. By the provision of the 1976 decree, the confiscation of foreign investment is prohibited. Additionally, some

incentives are available, such as: up to 50% of profit can be repatriated each year, capital repatriation is allowed after 5 years from the project's inception date. Above all, a special priority is given to export-oriented and import-substitution projects which will use the local resources. Attention is also given to the introduction of technical expertise, the creation of new jobs and those projects which will not compete with the domestic firms⁽⁷⁷⁾.

So far, because of the uncertainty surrounding the private sector and the guarantees offered, joint-venture investments with foreign partners is limited (joint ventures projects are mostly with Arabic investors). Free Zones, licensing arrangements and international tenders constitute are the main method for the entry into the Syrian market.⁽⁷⁸⁾

Concluding Remarks

In accordance with the previous summarised profile of some Middle Eastern countries' experience of and policies toward FDI, it could be argued that the actual choice of FDI policies differs from one country to another. This is probably because of the differences between these countries in terms of the economic-political ideology, experience with international business, regulations, priorities, and factor endowments, etc.

A word of caution however: despite the number of similarities which exist between the Middle Eastern countries' economic and socio-cultural characteristics, it

is not easy to draw an accurate generalization that these countries have a generally similar orientation, policies and experience regarding FDI for just as it is possible that the needs, national plans, etc. of all countries differ, it would seem to be sensible to explore the possibility or at least to assume that there is also a difference in orientation to foreign investment and technology. At the same time, the Middle Eastern countries are also strikingly similar in the great demand being made on FDI as a medium for better economic and social development.

Perhaps, a comparison between the ten developing countries (in the Middle East, Latin America and the Far East) covered in this chapter may show some interesting points such as: ⁽⁷⁹⁾

1. In the majority of countries, joint ventures and contractual agreements (particularly licensing agreements) are the most important or acceptable forms of FDI. This is in addition to the investment in the Free Zones and similar sites.

2. International subcontracting has some importance in Mexico and Tunisia.

3. Except for the case of Algeria, both turnkey and product-in-hand operations appear to be of no particular importance in any country covered by the foregoing review.

4. Management contracts on the whole seem to be of limited significance in manufacturing sectors either in the case of Middle Eastern countries or in the case of both

the Latin-American countries (ie. Brazil and Mexico) and the Far Eastern countries (S. Korea and Singapore.

5. Among the countries reviewed, Singapore (and to some degree Israel, Jordan and Brazil) has increasingly permitted the establishment of a wholly and majority owned- Foreign subsidiaries. In other words, Singapore has increasingly gained complementary benefits from this form of FDI particularly in manufacturing industries^(*).

6. In most countries (particularly the leading developing countries in FDI terms e.g. Mexico, Brazil) there is an increasing tendency to relate the incentives offered to performance requirements as is the case in many developed countries. Arguably a host country may benefit from imposing pre-conditions of performance requirements side by side with the incentives granted, at the same time, selection between countries may be made by MNCs may be based on factors other than the incentives provided.

Finally, although it is possible to argue that the preceding review of the policies and experiences regarding FDI shows some similarities and differences among the countries covered, it is difficult to produce generalisations from any of the previously-outlined concluding points, partly because of methodological considerations, (e.g. the

(*) Despite the lack of statistical data concerning the contributions of the wholly-owned-foreign investments in the countries other than Singapore.

small number of countries covered with the present review), partly too because of the lack of data required to point out the significance of eg. the degree of MNCs participation, contributions, etc. in relation to each form of FDI adopted in each individual country, and finally because the present review itself (which is over-simplified) may make it difficult to form any generalizations.

REFERENCES

1. W.A. Stoever., Endowments, priorities and policies., op. cit., pp. 3-4.
2. Ibid, p. 3.
3. C. Oman (ed) New forms of international investment in developing countries, Based on E.A. Guimaraes, et al., "The new forms of investment in Brazil", in OECD, Paris, 1984), pp. 50-51.
4. Ibid, p. 51.
5. Ibid, p. 51.
6. L.S. Walsh, International marketing, Estover, Macdonald & Evans Ltd, 1983, 2nd ed., p. 171.
7. Ibid, p. 172.
8. E.A. Guimaraes, et al., The new forms of investment in Brazil, op. cit., pp. 51-52.
9. L. S. Walsh, International Marketing, op.cit., p. 170.
10. S. Lall, Multinational corporation, op.cit., pp.31-33.
11. British National Export Council "Joint venture in Latin America", in D. Tookey, Export Marketing Decisions, Harmondsworth: Penguin Books Ltd., 1975, , pp. 136-137.
12. L.S. Walsh, International Marketing, op.cit, pp.172-173.
13. OECD, "Development Co-operation", in ILO, employment effects, op.cit., p. 3.
14. OECD, Investing in developing countries, Paris, 1983, table 5, p. 23 and p. 25.
15. R.S. Newfarmer and W.F. Mueller, "Multinational Corporations in Brazil and Mexico", in S. Lall, Multinational Corporation, op.cit., pp. 38-39.

16. British National Export Council, Joint venture in Latin America, loc. cit..
17. J.N. Behrman, Decision criteria for foreign direct Investment in Latin America. (New York: Council of the Americas, 1974), pp. 73-74.
18. C. Oman (ed), New forms of international investment in developing countries, op. cit., p. 41.
19. Ibid, p. 81.
20. U.N. Transnational Corporation in the International Auto Industry, 1983, pp. 105-121.
21. British National Export Council, loc. cit.
22. C. Oman, New forms of International investment in developing countries, op.cit., p. 101.
23. J. N. Behrman., Decision criteria for foreign direct investment in Latin America., op.cit., pp. 82-84.
24. S. H. Robock and K. Simmonds., International business and multinational enterprises, op.cit., p. 203.
25. For further detail or empirical evidence concerning the number of cases in which licensing applications have been rejected see for example: - H. H. Camp and C.J. Mann, Regulating the transfer of technology: The Mexican Experience, Columbia Journal of World Business, Vol. X, No. 2, 1975, pp. 110-120.
26. J.N. Behrman, Decision criteria.. op.cit., pp. 35-59.
27. OECD. Investing in developing countries, 1983, Tables (4) and (5) p. 23 and p. 25.

28. B.Y. Koo, "New forms of foreign investment in Korea" in C. Oman (ed), new forms of international investment in developing countries, op.cit., pp. 53-54.
29. Ibid, p. 54.
30. Ibid, p.55.
31. Ibid, p.55-56.
32. Ibid, pp.56-57.
33. Far Eastern Economic Review, May 13, 1977, in P. K. Tharaken, Multinational Companies and a new international division of labour, op.cit., pp. 108-109.
34. P.E. Fong, "Foreign Indirect Investment in Singapore", in C. Oman (ed), New forms of international investment.... op.cit., p. 58.
35. OECD. Investing in Developing Countries, 1983, op.cit., table 5, p. 25.
36. P.E. Fong, Foreign Indirect Investment in Singapore, op.cit., pp. 57-60.
37. Ibid, p. 58.
38. P. E. Fong, loc.cit.
39. Ibid, pp. 58-59 (For more details and information regarding data on ownership structure broken down by industry and nationality of investors).
40. Ibid, p. 60.
41. P. Lasserre, The new industrialising countries of Asia - perspective and opportunities, Long Range Planning, 1981, Vol. 14, no. 3, pp. 36-43.

42. Ibid, p. 39. (Based on Far Eastern Economic Review 1978).
43. The ASEAN Report by T. Allen, Asian Wall Street Journal, Dow Jones Pub. Co., 1979, in P. Lasserre. The New Industrialising Countries of Asia, op.cit., table (5), p. 40.
44. R. Weigan, International investments: Weighing the incentives, Harvard Business Review, July-August, 1983, pp. 146-152.
45. Ibid, p. 147 and p. 152.
46. OECD, Investing in developing countries, Paris, 1983, pp. 14-15.
47. _____, International investment and multinational enterprises: investments incentives and disincentives and the international investment process, Paris, 1983, pp. 24-26.
48. _____, International investment and multinational enterprises: the 1984 Review of the 1976 Declaration and Decisions, Paris, 1984, pp. 49-53.
49. See also: S. Wilks, Multinational strategies and national subsidies, European Consortium for political Research, Barcelona, 25-30 March 1985. (This working paper highlights the way in which it might be expected that MNCs respond to the industrial and subsidy policies of European governments. Empirical evidence concerning e.g. the importance of incentive structures has also been portrayed).

50. R. Weigand , International investment ... op.cit.,p.148.
51. R. Ajami , Arab Reponse to the Multinationas, op.cit., p. 109.
52. B. Bouattia , Marketing factors and economic development, op. cit., pp. 5-11.
53. A. Khodja , "Algeria's experience with new international investment relations", in C. Oman, (ed) New forms of international investment in developing countries, op.cit., pp. 48-50.
54. "Product-in-hand" contracts are turnkey operations in which the contractor's responsibilities are fulfilled only when the turnkey installation is completely operational with local personnel. That is they include provisions whereby the contractor assumes legal responsibility for preparing local management and workers to run the installation (see C. Oman, New forms of international investment, op.cit., p.16).
55. R. Ajami, Arab response to the Multinationals loc.cit.
56. R. Weigan, International Investment , op.cit., p.147.
57. B. Bouattia, Marketing factors and economic development. op.cit., pp. 65-67.
58. Ibid, p. 66.
59. U.N. Centre on Transnational Corporations in U.N., Transnational Corporations in food processing industries, New York, 1981, p. 133.
60. R. Ajami, Arab response to the multinationals, op. cit., 114.

61. Lloyds Bank Group Economic Report, Tunisia, 1984, pp. 19-21.
62. Loc. cit.
63. API, Tunis, reported in P.A. Smith, "Foreign firms benefit from Tunisia's manpower surplus" in R. Ajami, Arab Response.. op.cit., pp. 128-29..
64. Ibid, p. 127.
65. Based on: - Lloyds Bank Group Economic Reprot, Jordan, 1984, pp. 17-18, besides both Export Times, Nov. 1982, and International Midland Bank, Spotlight Jordan, 1980.
66. R. Ajami, Arab response to the Multinationals, op.cit., pp. 104-105.
67. OECD, Investing in Developing Countries, 1982, table 4, p. 23.
68. Drawn from: Lloyds Bank Groups Economic Reprot, Saudi Arabia, 1984, pp. 27-28.
69. Lloyds Bank Groups Economic Report, Israel, 1984,p.20.
70. OECD, Investing in developing countries, 1983, table 5, p. 25.
71. Y. Aharoni, Hōw to Market a Country, Columbia Journal of World Business, Vol 1., no. 2, 1966), pp. 41-49.
72. Ibid, p. 48.
73. Export Times, Exporters Handbook, 1978, p. 37, (see also, Export Times, the 1982 recent edition).
74. Lloyds Bank Group Economic Reprot, Israel, 1984, pp. 20-21.
75. Ibid, p. 20.
76. Times (Newspaper),Monday, Nov. 16, 1981.

77. Lloyds Bank Group Economic Report, Syria, 1984, p.19.
78. Financial Times Wed. April 11, 1979.
79. Some of these concluding remarks are to somewhat similar to those have been pointed out in a comparative survey made by C. Oman in the case of Algeria, Brazil, Tunisia, Singapore and South Korea. More detail in C. Oman, New forms of international investment .. op.cit., pp. 48-63.