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BOOK REVIEWS

The New Multinationals: The Spread of Third World Enterprises by Sanjaya Lall, in collaboration with Edward Chen, Jorge Katz, Bernardo Kosacoff, and Annibal Villela, Chichester, John Wiley & Sons, 1983, xv+268 pp.

I

This is a useful volume compiled by a veteran in the study of multinational corporations (MNCs), Sanjaya Lall. Lall is best known for having presented a number of provocative arguments regarding MNCs in the past, as well as for a deftly executed survey of the literature on MNCs.

One attractive feature of this volume is another accurate survey of the literature and a stimulating presentation of the problematique, as one would naturally expect from this expert. What makes the book even more inviting is the abundance of data on MNCs of India, Hong Kong, Argentina, and Brazil, collected and presented respectively by S. Lall, E. K. Y. Chen, J. Katz & B. Kosacoff, and A. Villela. This book is bound to assume a respected position in the study of Third World multinationals as a collection of first-class empirical studies, alongside the studies of Kumar & McLeod and Wells.[1]

The papers compiled here vividly portray the great diversity in forms taken by the Third World multinationals. While the general framework for analysis is provided by Lall, the country-specific studies do not necessarily follow his format, and the empirical findings often exceed the boundaries set by the general frame of reference. In fact, Lall himself is overtly puzzled by the extent to which the actual behavior of these MNCs differs from one to another and also by the pace at which their nature changes. He confesses that "the Third World MNC turned out to be a more complex beast than we have expected" (p. 18).

In the present review, attention is focused on the argument of Lall himself.

II

Few would dispute that it was the pioneering works of Lecraw and Wells[2] that first

[1] Krishna Kumar and Maxwell G. McLeod, eds., *Multinationals from Developing Countries* (Lexington, Mass.: Lexington Press, 1981); Louis T. Wells, Jr., *Third World Multinationals: The Rise of Foreign Investment from Developing Countries* (Cambridge, Mass.: MIT Press, 1983).

[2] D. Lecraw, "Direct Investment by Firms from Less Developed Countries," *Oxford Economic Papers*, Vol. 29, No. 3 (November 1977); idem, "The Internationalization of Firms from LDCs: Evidence from the ASEAN Region," in Kumar and McLeod, *Multinationals from Developing Countries*; Louis T. Wells, Jr., "The Internationalization of Firms from Developing Countries," in *Multinationals from Small Countries*, ed. T. Agmon and C. P. Kindleberger (Cambridge, Mass.: MIT Press, 1977); idem, "Foreign Investment from the Third World: The Experience of Chinese Firms from Hong Kong," *Columbia Journal of World Business*, Vol. 13, No. 1 (1978); idem, "Foreign Investors from the Third World," in Kumar and McLeod, *Multinationals from Developing Countries;* and idem, *Third World Multinationals.*

took notice of a "new phenomenon" of LDC-based MNCs early on and embarked on a comparative study of these multinationals with MNCs of developed industrial countries (DC MNCs). Their identification of the general features and their theoretical account of this phenomenon has come to be regarded as part of the conventional knowledge, and run roughly as follows: DC MNCs are mostly big enterprises with monopolistic or oligopolistic positions; they make good use of such positions in establishing their investment strategies; they employ high technologies of a large scale and of capital-intensive nature; they compete using product quality, differentiation, and brand image as their weapons, and enjoy comparative advantage through their expert knowledge in marketing; and they prefer to establish fully owned subsidiary companies in host countries rather than forming joint ventures with domestic host country firms. On the other hand, Lecraw and Wells posit the following regarding the multinationals of LDCs (LDC MNCs): they employ labor-intensive technologies that are appropriate for small-scale production, producing standardized products; their main weapon in competition is low price; they tend to have a form of minority equity participation and prefer joint ventures with host country firms; and they are often characterized by strong ethnic ties with host countries partners in joint ventures. Wells thus maintains that the prospects for LDC MNCs are "less optimistic than I would have expected"[3] and that "the life cycles of many manufacturing subsidiaries of developing country firms will probably be short. With time, profits or market share are likely to be eroded by local competitors, ties with the original parent will weaken, and some subsidiaries will be sold by choice or through host government pressure."[4]

The Wells-Lecraw hypothesis in many ways resembles the argument Kojima adopted in pursuing the characteristic features of foreign direct investment (FDI) by Japan in its early period.[5] As Kojima compared Japanese FDI with that of the United States to outline the "Japanese type" of FDI, Wells and Lecraw compared LDC MNCs with those of industrial countries (particularly MNCs of the United States) in describing the outstanding features of the former, and this choice of comparative axis had the drawback of obscuring the differences that exist among Third World MNCs. Very often there is a substantial diversity among countries of the "Third World" that are mentioned as experiencing the "multinationalization of firms." These countries can be classified into at least the following three groups geographically: (i) East Asian NICs (Hong Kong, Singapore, Taiwan, and R.O.K.), (ii) huge Latin American countries (Argentina, Brazil, and Mexico), and (iii) India. These countries pursue grossly divergent development strategies, with the inevitable result that their firms operate in a variety of ways and therefore the way in which FDI is executed also varies. As Lall correctly points out, "different home environments produce different sets of MNCs" (pp. 267–68). This calls for country-specific studies of LDC MNCs of greater detail and depth.

III

It is well known that Lall mounted a severe criticism of the Wells-Lecraw hypothesis in his paper that appeared in the *World Development*.[6] Although the critical attitude

3 Wells, *Third World Multinationals*, p. 160.

4 Ibid., p. 157.

5 Kiyoshi Kojima, "Transfer of Technology to Developing Countries—Japanese Type versus American Type," *Hitotsubashi Journal of Economics*, Vol. 17, No. 2 (February 1977).

6 Sanjaya Lall, "The Emergence of Third World Multinationals: Indian Joint Ventures Overseas," *World Development*, Vol. 10, No. 2 (February 1982).

is maintained in the present volume, the tone of the criticism has become rather muted.

Nevertheless, Lall's hypothesis is particularly interesting in that he attempts to establish a typology of overseas expansion by LDC MNCs by using the concept of revealed comparative advantage on the level of the national economies. He places Hong Kong at one extreme and India at the other. Hong Kong, being a small entity with few noteworthy capital goods industries, has pursued an export-oriented strategy with emphasis on light consumer goods, and the comparative advantage of Hong Kong's MNC lies "in putting together an efficient package of imported plant, equipment, and knowhow with their own managerial and marketing skills" (p. 16). On the other hand, "Indian MNCs seem to have the highest 'embodiment' of indigenous capital goods and knowhow of the Third World multinationals, a result of the heavy industrialization and technological promotion strategies of the government" (p. 16). In other words, Indian firms have not only acquired knowhow (production technology) but also "know-why" (basic design capability), and this is precisely the basis on which Indian MNCs have successfully pushed abroad, according to Lall.

This typology by Lall implies that the Wells-Lecraw hypothesis is applicable at least to Hong Kong multinationals. Lall's criticism of this hypothesis is directed at its generalization: it seems the hypothesis is accepted by Lall as a partial theory. At any rate, Lall's assertion that Indian MNCs have expanded overseas on the basis of technological advantage is in itself a rather shocking one, forcing one to re-examine the inward-looking policy and concomitant strategy of indigenizing technologies which India has consistently pursued so far.

IV

Lall's point about Indian MNCs outlined above is based on his empirical studies. Hence close examination of these studies should serve to test the validity of his hypothesis insofar as it applies to India's MNCs.

Lall mentions a number of reasons why the Wells hypothesis does not apply in the Indian case, the two most important of which are the following:

(1) India's main foreign investors are genuinely big business groups. Large firm size and access to conglomerate financial, technical, and other resources are clearly important assets in overseas activity even for a relatively new entrant like India.

(2) Indian enterprises are not major innovators in the sense of creating new technological breakthroughs, but neither are theirs unbranded, low R & D, low quality products that compete on the basis of price, as Wells contends. Many investments are large and technologically advanced, often very capital-intensive, and the products are sophisticated and backed by extensive advertising and after-sales service.

These points should lead to the conclusion that Indian firms are inherently inclined to multinationalize themselves or have partially done so already. Thus, Lall sees prospects for Indian MNCs diametrically opposite to those presented by Wells, with Lall saying that "most of the investors are well entrenched overseas and are expanding and diversifying their operations (i.e., extending the scope of their proprietary advantages and supplying new ones from India) as well as searching for new locations for additional investments" (pp. 82–83).

The differing prospects for LDC MNCs set forth by the two observers are largely due to differing angles of observation. Certainly Lall is right in pointing out that LDC firms engaged in foreign direct investment (and not only those of Indian origin) are large-sized in the context of their countries of origin. But when they are compared

with DC MNCs, they are seen to be at comparative disadvantage in all the essential aspects of their operation, i.e., finance, technology, management, and marketing (naturally, not without some exceptions). It is not far off the mark to say that LDC MNCs, when compared with DC MNCs, are the producers of "unbranded, low R & D, low quality products that compete on the basis of price," and Indian MNCs are no exception. Lall's emphasis on technological advantage as the basis of the expansion overseas of Indian MNCs has relative validity only when they are compared with MNCs of other LDCs (particularly with those of Hong Kong type), but is far less valid when comparison is made with the MNCs of the U.S. type.

We further note that the general character of Indian FDI from the overall view is rather decisively different from that depicted by Lall. Among its general characteristics are:

(1) All Indian FDI in the manufacturing sector is in the form of joint ventures and 80 per cent of it involves India only in minority equity participation;

(2) Most of India's investment abroad is directed to Southeast Asia and Africa, hardly any of it going to the manufacturing sector in developed countries;

(3) Joint ventures in operation with Indian capital participation as of the end of August 1980 numbered 117 cases, and the total investment stood at Rs.357.1 million (about U.S.$44.6 million), meaning that the average per unit investment amounted to a meager Rs.3 million or U.S.$0.38 million (the average per unit investment by Taiwanese enterprises was U.S.$0.74 million for 1959–82 on the approval basis, and that for Korea was U.S.$0.74 million for 1970–82 also on the approval basis, both amounting to almost twice that for India); and

(4) In terms of the forms Indian equity adopts in the 204 ventures in operation and under implementation as of end-August 1980, over two-thirds of total equity contribution has been in capital equipment provided from India and another 11 per cent has been in the form of capitalized knowhow, while only 6 per cent of the equity participation has taken the form of cash. Thus, it is more appropriate to call FDI by Indian firms a variation of commodity/technology export than capital export per se.

This reviewer, therefore, finds it difficult to avoid the impression that it may well constitute an abuse of the term to refer to Indian firms involved in FDI as "multinationals," although it could be argued that it depends on how that term is defined. Lall has superbly depicted one aspect of the comparative advantages enjoyed by Indian firms nurtured under the strategy of indigenizing technologies, but his excessive preoccupation with technology or, alternatively, with management/marketing as the factors contributing to the characteristic features of Indian FDI seems to have lead the author to an underevaluation of the all-important financial or ownership factor. (Hideki Esho)

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I

This book is a compilation of the established results of research on the behavior and characteristics of multinationals of, or the direct investment from, developing countries