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INTRA-LDCs FOREIGN DIRECT INVESTMENT: A COMPARATIVE ANALYSIS OF THIRD WORLD MULTINATIONALS

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I. INTRODUCTION

FOREIGN direct investments (FDI) from developing market economy countries (LDCs) such as Argentina, Brazil, Hong Kong, India, Singapore, the Republic of Korea, and Taiwan in other LDCs are drawing considerable attention in the ongoing discussion on the activities of multinational corporations. Some have welcomed them as agents of suitable technology for the host countries [37] [22]. Others hope that these investments will lead to improved investment climate in their home countries for FDI from developed countries [15]. In this paper an attempt is made to analyze some of the important aspects of these investments in the light of experience of FDI from developed market economy countries (DCs) which have a much longer history. Of late some of the oil-surplus countries (e.g., Kuwait, Saudi Arabia, or the U.A.E.) have invested significant amounts of capital abroad. These investments are made, however, mostly through acquisition of equity or portfolio interests without any major active participation in the management of the enterprises concerned, and are therefore not included in this analysis. A further limitation of the paper is that LDC-multinationals constitute a relatively new field of research, and information available on them is very limited. Hence some of the generalizations made here have to be read with due caution.

II. REGIONAL PATTERNS

Data on FDI from LDCs are scarce. Only a few of them (e.g., India) publish figures on outflows of FDI and a few others (e.g., Indonesia) on inflows of FDI. Recently the U.N. Centre on Transnational Corporations has published some overall figures on the basis of balance-of-payments data. They indicate that FDI of developing countries amount to only a fraction of those from the developed countries, but they have been growing faster. During the period 1970–72 the total outflow of FDI from LDCs amounted to U.S.$43 million,

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TABLE I
SHARE OF INTRA-LDCs FDI IN TOTAL FDI IN SELECTED HOST COUNTRIES

(%)

Argentina	(1976)	1.73	Indonesia[a]	(1982)	15.90
Brazil	(1979)	0.60	Mexico	(1978)	0.22
Chile	(1974–78)	0.95	Peru	(1978)	2.00
Colombia	(1978)	6.48	Philippines[a]	(1982)	6.80
Ecuador	(1977)	6.40	Thailand[a]	(1982)	13.70
Guatemala	(1976)	6.80	Venezuela	(1979)	0.78
Hong Kong[a]	(1982)	4.10			

Sources: [8] quoted in [25, p. 48]; [24, Appendix table 2.2]; [34, p. 247ff.].
[a] Share of Asian developing countries only.

i.e., 0.33 per cent of the outflow from DCs. In 1978–80 this ratio had risen to 1.64 per cent. For the ten-year period from 1970 to 1980 the growth rate of FDI from LDCs was, however, more than two and a half times that of FDI from DCs [34, p. 18f.]. In some host countries (Indonesia and Thailand) they already constitute as much as 14 to 16 per cent of total FDI (Table I). In terms of the number of projects, their importance is even greater.[1] In some countries (Nigeria and Ghana) selected industries (e.g., textiles) are already dominated by LDC-investors [7].

The largest investors in Asia are Hong Kong, Korea, the Philippines, and Singapore; and in Latin America Argentina, Brazil, Mexico, and Venezuela. The largest host countries are Indonesia, Hong Kong, and Thailand in Asia; Brazil, Colombia, and Ecuador in Latin America. Many of these countries are both home and host countries of Third World multinationals (Table II).

One of the important characteristics of these multinationals is that they generally invest in neighboring countries with sizeable populations of similar ethnic and cultural background. For example, nine-tenths of Argentinian FDI in 1980 were concentrated in Latin America, mainly in Brazil, Peru, and Uruguay [26, p. 46] and of India in Asia and Kenya [17, p. 25f.]. More than four-fifths of the affiliates of companies from Singapore and more than half of those of Malaysian firms are in South and East Asia [35, p. 34]. Ethnic and cultural similarity is very often correlated with similarity of demand structures of home and host countries. Moreover, ethnic and cultural similarity tends to assure the investors of an elastic local supply of personnel which suits their tastes and can be trained for managerial and technical jobs. This is more important for long range planning than in the short run, when they tend to employ a relatively high proportion of expatriates from their home countries. Early expansion of DC-multinationals was characterized by a similar pattern.

1 By the end of the last decade 963 LDC firms had 1964 subsidiaries or branches in 125 host countries of which about 50 per cent were in the manufacturing sector. However, it would be wrong to consider all of these LDC firms as multinationals because many of them may not have a subsidiary, branch, or joint venture in more than one foreign location [39, p. 2ff.].

TABLE II

SELECTED IMPORTANT HOME AND HOST COUNTRIES OF FDI IN THE THIRD WORLD

(U.S.$ million)

Largest Home Countries		Largest Host Countries	
Argentina	35	Brazil	42
Brazil	30	Colombia	36
Hong Kong	753	Ecuador	33
India	22	Hong Kong	54
Korea	107	Indonesia	1,388[a]
Malaysia	48	Mexico	21
Mexico	30	Thailand	44
Philippines	276	Venezuela	22
Singapore	131		
Thailand	30		
Uruguay	21		
Venezuela	42		

Source: [34, p. 246ff.].

Note: Figures refer to total FDI in 1976 or one to two years earlier in or from neighboring important developing countries.

[a] Data for Indonesia refer to approved intended investments and are therefore not quite comparable with those of other countries.

Notwithstanding, the importance of this factor should not be overemphasized. A small minority population of Indians could, for example, attract Indian FDI as far as Nigeria but not further to Guyana where the Indian population is in majority. Investing in countries at very great distances and with quite different cultural, economic, and political conditions involves higher information and management costs, which are generally avoided by LDC-multinationals. Their investments are on the whole confined to nearby regions, although there are exceptions to this pattern. Hong Kong FDI in textiles have for example a wider geographical spread and in servicing activities FDI of all developing countries are widely distributed. A few Indian firms have opened hotels and restaurants in Australia, France, United Kingdom, and the United States. Chinese restaurants are spread all over the world, though many of them may be locally owned. Banks from Korea, India, and other developing countries are—like those from the developed countries—following their trade by opening branches in their main partner countries. And a large part of the Korean FDI in the trading sector is spread over North America, Europe, and Africa. Nonetheless, regional concentration of affiliates of LDC-multinationals is very high, in any case higher than that of affiliates of DC-multinationals.

III. SECTORAL STRUCTURE

A great part of FDI from developing countries is concentrated in the manufacturing sector. Two out of every three Indian joint ventures are engaged in industrial activities. About 80 per cent of outward Taiwanese and inward

TABLE III

SECTORAL DISTRIBUTION OF FDI FROM OR IN SELECTED DEVELOPING COUNTRIES

(%)

	India 1982	Korea 1980	Taiwan 1979	Argentina 1974	Ecuador 1974	Colombia 1974	Venezuela 1974
Manufacturing sector	65	13	78	49	33	81	46
Construction	5	12	—	8	17	6	10
Mining, agriculture, and forestry	—	48	8	38[b]	12	—	—
Trading activities	13	12	11	4	9	—	40
Others[c]	17	15	1[a]	2	29	13	4

Sources: [14] [19] [24] [26] [33] [41].

Note: Outward FDI in the case of Argentina, India, Korea, and Taiwan. Inward FDI in the case of Ecuador, Colombia, and Venezuela.

a Includes construction.

b Includes petroleum.

c Shares do not up to 100 per cent due to rounding.

Colombian FDI, are in the manufacturing sector (Table III).[2] Within this sector the investments are spread over a number of industries producing mostly—unlike the DC firms—products which are characterized by mature technologies, low price competition, and absence of product differentiation [7]. More than half of the Hong Kong FDI seems however to be concentrated in textiles [9]. In the case of India, textile investments occupy second place. The biggest share of her FDI goes to light engineering industries [14]. Intra-Latin American FDI are preponderantly in food products [41]. Thus LDC investments take place mostly in those industries which dominate the manufactured exports of investing countries, supporting the hypothesis that trade is followed by FDI [29].

FDI of developing countries in raw materials of host countries are relatively less important, though the situation differs from country to country. India has recently set up a joint venture in Senegal which will enable India to import phosphoric acid from that country from 1984–85 onward. Some Hong Kong and Filipino firms have invested in Borneo to exploit the local supply of timber. Hong Kong firms supply timber mainly to their home-based furniture industry whereas the Filipino timber investors in Borneo are world market oriented. The share of raw material-FDI in overall Argentine and Korean FDI is probably the highest among all the investing countries of the Third World (Table III). In the case of Argentina it is mainly in petroleum, while most of the Korean investments are in timbering in Southeast Asia. The Peruvian Cía Minera Buenaventura has capital participations in some mining companies of other Latin American coun-

[2] This table has been prepared on the basis of heterogeneous data. Therefore the figures quoted for one country are not quite comparable with those for another country. Nonetheless, it is helpful in drawing some broad conclusions with regard to industrial distribution of FDI of developing countries in the absence of better data.

tries like Venezuela and Ecuador. Brazil has a joint venture in Colombia to ensure coal supply to her public sector steel factory. As host countries, Indonesia in Asia, and Ecuador and Venezuela in Latin America appear to have attracted relatively more FDI in their raw material sectors from other developing countries.

IV. RELEVANCE OF ECLECTIC THEORY

Theoretical discussion on FDI at present is dominated by the eclectic theory of international production according to which FDI is a function of ownership, internalization, and locational advantages. Ownership advantages refer to invisibles like proprietary technology, patented trade marks, controls on market entry, etc., which outweigh for the investor the disadvantages of operating in a foreign environment. Further, these advantages should yield greater benefit to the investor through internalization (i.e., FDI) than through outright sale (including licensing, technical service agreement, or sale of turnkey projects, etc.) to third parties. Finally, the host country must offer some locational advantages (e.g., lower wage costs, cheaper energy, or raw materials) over the home country of the investor to attract FDI [13]. In the absence of any of these three factors a firm will try to serve a foreign market through exports (of goods or invisibles) or simply shun that market.

This theory is deduced from the experience of FDI behavior of those DC-investors who have already acted as multinational producers and sellers of goods and services for a sufficiently long time to appear in the front lines of international business. Most of the LDC-multinationals are relatively very small and in the initial stages of their internationalization process. Therefore the question arises whether the eclectic theory is applicable to the phenomenon of foreign investing by LDC firms. As the following discussion shows, the answer is in the affirmative in spite of many differences between these two kinds of foreign investors with regard to their ownership advantages, market behavior and locational strategies.

According to the eclectic theory a firm must have at least one ownership-specific advantage over its competitors in a foreign country in order to invest there successfully. Such ownership-specific advantages of DC-multinationals are in most cases attributable to their larger size, which enables them to undertake more R & D activities leading to more patents, trade marks and such other ownership-specific advantages. Size is instrumental also in helping a firm have greater control over market entry. Therefore, size is found as the most important determinant of multinationality of firms in the United States [36] [16]. LDC-firms usually do not possess exclusive patented or unpatented know-how or internationally renowned trademarks which might give them a competitive edge over local or foreign competitors in a host country. There are only a few companies like the Filipino brewer San Miguel, F & N of Singapore, Inca Kola of Peru, or Perle's Confectionary of India which have been able to build an international brand image and take advantage of it in promoting their FDI [39]. Ownership advantages of LDC-investors generally stem from the scaling down of technologies imported from developed countries, and making them suitable for smaller

markets of poorer countries. LDC-firms are active in goods produced with mature and standardized techniques which they have not only learnt but also adapted to local climatic and social conditions. This gives them a competitive advantage over the original producers of these techniques. DC-multinationals are generally used to bigger markets and their managers do not find it profitable to operate in countries with smaller markets. Managers from developing countries are, on the contrary, used to operating in their own smaller home markets and this becomes an advantage for them in their host countries. Moreover, they are prepared to work at lower salaries than managers from developed countries. The optimum size of firms established by LDC-multinationals is smaller and thus more suitable for the needs of the host developing countries with limited domestic markets. This does not apply, of course, to those cases where FDI are undertaken to supply export markets with elastic demand. However such intra-LDCs investments are rare, although their exact share is not known. Textile firms from Hong Kong have been active in this field for a long time. They established their export platforms first in Singapore and later spread to Mauritius and the Philippines. Their competitive advantage over the local firms consists in having established business relations with customers especially in developed market economies [39].

The second postulate of eclectic theory of international production is that the exploitation of ownership-specific advantages through FDI should be more profitable for the owner of these advantages than their direct or indirect sale. Capital goods which have been adapted to local conditions of the less industrialized countries can be easily exported and are in fact exported by them to other developing countries wherever local entrepreneurs are willing and able to establish production units with these capital goods. But local entrepreneurship is not always forthcoming or is not always prepared to take on the entire risk of a new enterprise due to a lack of managerial know-how. This know-how, which is available in the more industrialized developing countries, is personified in the managers of firms there but they cannot be imported into the other developing countries freely through market channels. There are various reasons for this managerial immobility among the developing countries. First, immigration laws of these countries are restrictive and quite often more so than in many developed countries. Second, business managers in the more industrialized developing countries are aware of the policies of indigenization in other developing countries and are therefore not willing to sacrifice the long term security of jobs in their home countries for short term gains in poorer developing countries.[3] They are often prepared to take similar risks in developed countries where employment markets are more lucrative and large enough to offer sufficient opportunity for alternative jobs. But employment markets in developing countries are relatively small. Further, a manager returning to his home developing country from an even more

[3] Business executives of public sector enterprises in more industrialized developing countries do go on deputation to lesser industrialized developing countries. This kind of export of managerial know-how is generally confined to public utility services where FDI are generally not allowed.

underdeveloped country faces poorer local job prospects than one coming back with experience in a highly industrialized economy.

This aspect of the market is probably the most important factor behind the internalization of managerial know-how in firms in the newly industrializing countries. Though it is not of their own creation, it helps them to promote their own FDI instead of exports of their goods and services to lesser developed countries.

The third condition of eclectic theory is that the host country must possess one or more locational advantages over the home country of a would-be foreign investor. Otherwise a firm would prefer to serve the market of the host country through exports of its products. Locational advantage is, however, a relative concept. It may involve elements of the economy of the host country sufficient in their own right to attract foreign investors to establish production facilities there. Or a locational advantage of a host country may be an indirect result of disadvantage(s) in the home country of an investor. The former may be called direct, and the latter indirect advantage.

The more popular of the direct advantages are: fiscal incentives, import protection, large or growing domestic markets, natural resources, and low-cost labor. A survey of FDI of developed countries in developing countries showed that it was doubtful whether fiscal incentives given by host countries had much effect on the inflow of these investments. Import protection was found to play a greater role, especially if the domestic market was large. Investors are usually attracted by protected markets [27]. A survey of Indian joint ventures in Indonesia, Kenya, Malaysia, Nigeria, and Singapore showed that though such locational advantages did influence the decisions of Indian investors positively, they could not be said to be of a very great overall importance [10]. As compared to fiscal incentives and import protection, market size has proved to be a more important variable at the macro level in a number of studies on investment behavior of DC multinationals.[4] This may apply to LDC multinationals too, though this could not be verified from the limited number of empirical studies available in this field. The availability of a cheaper labor force has proved to be an important determinant in the case of FDI from developed countries [28] [11] [12] [1] [19]. But it is not such an important consideration as yet for investors from the newly industrializing countries [23], because unit labor costs in the host developing countries may not be significantly different from those in their home countries. Hong Kong [7], Singapore and to some extent Korea now are exceptions. Rapidly rising wages especially in the first two countries have encouraged some investors to look for cheaper locations in the neighboring countries of Thailand, Malaysia, Indonesia, and the Philippines.

Indirect locational advantages arise for example from restrictions on monopolistic practices, environmental regulations or market saturation in home countries of investors. In a recent survey [3], 14 per cent of the parent companies of Indian joint ventures stated that restrictions on their domestic expansion were

[4] See for example [5] [30] [31].

an important factor behind their decisions to multinationalize their businesses.[5] In the United States the growth of bigger corporations is constrained by anti-trust regulations. Such corporations therefore find in FDI an alternative to further growth at home [6]. It is also known that environmental regulations in Japan and the United States have encouraged their firms to increase their offshore productive activities. In contrast to these disadvantages stemming from legal restrictions, home country disadvantages can arise also from economic factors. For example, local firms in developing countries easily reach the market saturation point and exports to other countries may not sufficiently fulfil their desire for growth due to protectionist policies of trade partners. Thus they may be encouraged to invest abroad. This suits sometimes also their need for geographical diversification of business activities. One of the motives for geographical diversification is to achieve a greater flexibility in the field of foreign exchange transactions. All developing countries impose restrictions on their firms in some way or other with regard to receipts and payments in foreign exchange and by doing so are able to control some other activities indirectly. By internationalizing their production these firms hope to increase their freedom from national exchange regulations at least in the long run. FDI provide generally better opportunities than portfolio investments for transferring funds internationally to avoid foreign exchange restrictions of both home and host countries.

To sum up, ownership advantages of Third World multinationals generally arise from their efforts to adapt technologies previously imported from the developed countries to smaller market size and factor endowments of LDCs. Moreover such firms are able to train managerial personnel suited for operations in these countries—personnel which in most cases would not otherwise be available in host LDCs. Like DC-multinationals, they are attracted by some of the locational advantages of their host countries (e.g., incentives, import protection, and large domestic and/or preferential export markets). The relative importance of these locational advantages is enhanced by locational disadvantages in the home countries (e.g., in India) of Third World multinationals. Thus, the necessary preconditions of the eclectic theory are fulfilled and it applies to these LDC-multinationals also, especially if broadly interpreted, as it is here, to assume that locational advantages of a host country are partially a function of locational disadvantages of the home country of firms investing abroad.

However, it must be remembered that the eclectic theory was conceived for FDI by private firms, whereas some Third World multinationals, as in the case of India, are owned by the government. Their FDI is mostly governed by international cooperation agreements and may take place independent of any of the three advantages required by the eclectic theory to explain the phenomenon of international movement of entrepreneurial capital. Public sector corporations from the developed countries are also involved in direct investment in the Third World where such FDI is generally preceded by some kind of international co-

[5] In order to encourage medium-scale firms restrictions were imposed in the 1970s in India on further expansion of its bigger domestic industrial companies. These restrictions have been successively relaxed since then.

operation agreement at the governmental level. Such cases fall outside the purview of the eclectic theory of international production.

V. HOST COUNTRY BENEFITS

A. *Appropriate Technology*

One of the commonly accepted characteristics of FDI of developed countries is that the technologies associated with these investments are capital intensive whereas the host developing countries, because of their factor endowments, need labor intensive technologies. As a result, production costs of goods produced by these imported technologies are higher than those if they were produced with labor intensive technologies. These costs are sometimes even higher than production costs in the home countries of the foreign investors primarily because the domestic markets of the host developing countries are generally smaller than optimal for the imported technologies. Therefore such goods are internationally not competitive[6] and in the domestic markets of the host countries they can be sold only with the support of local import protection. Such protection leads, however, to inefficient use of domestic resources and especially capital, which is scarce in developing countries. The technologies associated with the FDI of investing LDCs are claimed to be more labor intensive and therefore more appropriate for the host developing countries [39]. Another important reason for their appropriateness is that the optimum production levels of such technologies are generally lower than those for technologies imported from highly industrialized countries [23]. The main sources of these advantages are the following:

(1) Even if investing developing countries are unable to devote sizeable funds to R & D activities, they have succeeded in developing some production techniques and processes corresponding to their own factor proportions [4]. These methods of production are very likely to suit other developing countries endowed with similar factors of production.

(2) Though most of the FDI from developing countries is in mature products incorporating technologies previously imported from the developed countries, these technologies have undergone adjustments and adaption to local conditions in the original importing countries [26]. This is more common in ancillary operations than in the main production processes. In many cases developing countries have succeeded in scaling down the main production processes to suit their market sizes. Such adapted technologies are naturally more appropriate for other host developing countries than the unadjusted original forms. This is considered to be one of the important reasons for the profitability of LDC-firms in, for example, the Philippines [7], where they are able to avoid idle capacity by adjusting to the available demand.

[6] Moreover, exports of such goods are subject to export restrictions imposed by parent firms. Such restrictions were more popular in the 1960s. Since then host countries have succeeded to some extent in avoiding export restrictions associated with technology import especially in the field of mature products.

(3) Sometimes the investing LDC has not adjusted or changed an imported technology at all but the particular technology is no longer available from the original exporting developed country because it has converted to more labor saving production processes in order to reduce the costs of production. When the older technology is imported from one into another developing country, it may be more appropriate in comparison to its successors available from a highly industrialized country.

A comparison of firms from developing and developed countries in Indonesia showed that on average the former needed only about half of the capital per worker common among the latter during the period 1967–76 [42].[7] Lecraw's [23] comparison of Thai firms with different origins showed that in each industry firms with partners from developing countries (India, Taiwan, Singapore, and Malaysia) used considerably less capital per unit of output than those with parents in highly industrialized countries or those which were purely locally owned. The fact that the subsidiaries of MNCs from the developed countries tend to use capital intensive technologies is well known. But the finding that local firms in Thailand are also relatively capital intensive is somewhat surprising. One explanation could be that relative factor prices on the domestic market are distorted, but this should also affect firms having foreign partners from LDCs. The fact that these joint ventures are using labor intensive technologies in spite of distorted foctor prices indicates that local entrepreneurs are too eager to import the latest possible technologies—i.e., capital intensive technologies—from the developed countries and this is facilitated by distorted relative prices on factor markets. Local firms import as much as 80 per cent of their machinery from the developed countries and only 4 per cent from developing countries. The higher optimal production levels of these capital goods leads to lower capacity utilization in the local firms [23]. Busjeet's [7] comparison of LDC and DC-firms in the Philippines and Mauritius confirmed that the former are more labor intensive, not only in those cases where the production was primarily for the local market but where the production was primarily for the local market but also in the case of export-oriented projects where competitive pressure is expected to force producers to opt for the most appropriate technologies.

B. *Absorption of Local Resources*

Firms having their parents in the developed countries are generally parts of integrated and globally-oriented big corporations with centralized sourcing and selling strategies. Therefore the absorption of local resources in developing countries by these firms is likely to depend less on domestic resource availability than on the straegic considerations of the parent firms and on local prices in relation to those of other sources accessible to parent firms. LDC-firms in other LDC host countries are generally not quite so integrated into the sourcing and mar-

[7] Comparisons at two and three digit levels also showed that capital-labor ratios of the LDC-joint ventures were lower than for those from industrialized countries in each industrial branch except food products [40].

keting strategies of parent companies, and are thus likely to absorb a relatively greater proportion of domestically available raw materials and capital goods. This is also probably reinforced by the majority ownership of local partners in these ventures. Nearly all the foreign involvement of Indian firms in developing countries is through joint ventures, in accordance with the declared policy of the Indian government. About two-thirds of Latin American firms having foreign equity participation from developing countries of the same region are joint ventures.[8] Similar findings were yielded by a survey in Thailand. Whereas only about one-fourth of the multinationals from developed countries held minority equity participation in Thailand, for developing countries this indicator was as high as 86 per cent [23].[9] LDC-firms in Thailand import only two-fifths of their raw material requirements as compared to a three-fourths share of imports in the case of DC-firms. Similarly local firms are also consuming more imported raw materials than LDC-firms in Thailand [23]. An Indian firm adapted its technology to suit the quality of locally available raw materials in Mauritius.[10]

Local financing plays a bigger role in the case of FDI of developing countries than it does for those of developed countries. While reliable statistics are not available to support this hypothesis, it may be inferred from the fact that most LDC-joint ventures have local majority equity participation. LDCs facing foreign exchange shortages generally do not allow export of financial capital for FDI. In India, for example, cash transfers for this purpose were not permitted at all until 1978 and FDI took place by capitalizing the value of exported capital goods and services such as managerial and licensing fees. Since then, however, cash investments have been permitted for those projects likely to stimulate exports of Indian machinery and equipment. However, the share of such cash remittances in India's FDI remains very low at about 10 per cent [17].[11] Statistical evidence for other countries is wanting. Whatever information is available indicates that most of the FDI of other developing countries also consists of the capitalized

[8] [42] quoted in [25].

[9] FDI by DC-multinationals are often undertaken to exploit proprietary rights of their technical know-how. Local equity participation endangers these rights at least in the long run. Therefore the proprietors of these rights resent having local capital partnerships. Investors from developing countries generally do not bring such invisible assets with them to their host countries. They are instead more interested in taking advantage of the local market experience of their partners. However, in the light of experience in their home countries they may be also interested in avoiding confrontation with the host governments on the point of ownership by opting for minority participation [23]. The Indian government does not generally allow its investors to have majority ownership abroad in keeping with its policy of discouraging majority foreign ownership of firms domiciled in India.

[10] For more such examples see [39].

[11] This share will, however, increase in the next few years because some of the joint ventures now under implementation (joint ventures which have not yet started production, a term used in Indian statistics) have been permitted to transfer relatively high amounts of cash abroad for equity participation. In all these cases the Indian government is one of the partners. One of them is an Indo-Senegal joint venture to produce phosphatic fertilizers and phosphoric acid; the remaining two such joint ventures are banks in Nigeria and Sudan being established in collaboration with the State Bank of India [18].

value of exported capital equipment and services [33]. This is not very surprising, considering that host developing countries may not be found by investing firms to be any better resorts of capital security than their home countries.

Local majority capital share should normally lead to indigenous control of management. But LDC-joint ventures tend to have a very high share of expatriate managerial and supervisory staff from the countries of the foreign investors. Unlike MNCs from developed countries, firms in home LDCs are generally controlled and managed by individuals or individual families. They tend to employ in their foreign firms relatives or non-related managers who have served them for a long time—in order to secure continuity of their managerial system and effective control. Busjeet [7] found cases in the Philippines and Mauritius in which this was tolerated by the local partners, even though they had majority ownership.

VI. HOME COUNTRY BENEFITS

If it is assumed that governments act in the interests of their people, they should expect to receive, in the long run, net transfer of foreign exchange earnings from their investors abroad. Such earnings may come directly from the export of goods and services generated by FDI as well as from remittances of dividends. Second, FDI are supposed to project a positive image of a host country's technological and economic capabilities and thus improve the export chances in general. Third, transport and marketing network created by the FDI in the host market may be used to promote other exports of the home country.

These policy objectives are quite obvious in the Indian case. Export promotion is a declared aim of government policy with respect to Indian joint ventures abroad, which are promoted by a number of instruments such as tax incentives and an import replenishment scheme [3]. As is evident from Table IV, this policy of the Indian government has been successful. Up to 1980 Indian joint ventures spurred an initial export of capital equipment worth Rs.256 million which, because it was capitalized, had no direct impact on balance of payments. The growth of additional exports of raw materials, intermediate goods and components generated by such ventures up to 1972 was slow, but since then the ratio of such exports to initial exports of capital equipment has been growing. From 1978 to 1980 additional exports amounted on average to ten times the initial export of capital equipment (column 6 of Table IV). During this period, foreign exchange earnings through dividend transfers (column 7) and other repatriations (fee for technical know-how, engineering services, management, consultancy, etc. —column 8) have also gone up considerably so that, on a flow basis, joint ventures in the last three years (1978–80) for which the data are available were yielding foreign exchange to India averaging as much as twelve times the initial capitalized value of exported machinery and equipment (column 9). On a cumulative basis, for the period ending in March 1981 this crude[12] measure of balance-of-payments effects of Indian FDI results in a ratio of 1:5 (Table IV). It is

[12] For a more detailed assessment of balance-of-payments effect of FDI see [3].

TABLE IV

INITIAL AND SUBSEQUENT EFFECTS OF JOINT VENTURES ON INDIAN BALANCE OF PAYMENTS, FY1970–80

(Rs. million)

	Initial Capitalized Export of Goods to Joint Ventures	Subsequent Export of Goods to Joint Ventures	Inflow of Repatriated Dividends	Inflow of Other Repatriations	Total Foreign Exchange Earnings	Percentages of			
						(2) to (1)	(3) to (1)	(4) to (1)	(5) to (1)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Up to 1971	48.75	53.72	6.00	5.86	65.58	110.2	12.3	12.0	134.5
1972	12.77	13.28	1.84	1.32	16.44	104.0	14.4	10.3	128.7
1973	21.78	42.09	2.56	1.65	46.30	193.3	11.6	7.6	212.6
1974	23.86	73.57	3.25	2.29	79.11	308.3	13.6	9.6	331.6
1975	30.11	97.97	2.59	13.03	113.59	325.4	8.6	43.3	377.3
1976	34.25	104.49	3.92	13.62	122.03	305.1	11.4	39.8	356.3
1977	24.55	133.10	5.75	20.69	159.54	542.2	23.4	84.3	649.9
1978	17.28	144.00	7.43	23.95	175.38	833.3	43.0	138.6	1,014.9
1979	28.77	218.65	18.59	49.26	286.50	760.0	64.6	171.2	995.8
1980[a]	13.74	255.96	6.88	14.55	277.39	1,862.9	50.1	105.9	2,018.9
Total	255.86	1,136.83	58.81	146.22	1,341.86	444.8	23.0	57.1	524.5
of which:									
Joint ventures in operation	209.37	946.57	48.93	102.27	1,097.77	452.1	23.4	48.8	524.3
Joint ventures abandoned	33.85	146.76	9.88	19.85	176.49	433.6	29.2	58.6	521.4
Joint ventures under implementation	12.64	43.50	—	24.10	67.60	344.1	—	190.7	534.8

Sources: [17] [18].

[a] Incomplete.

somewhat higher in the case of new joint ventures which are still in implementation stage, indicating that the total foreign exchange earnings per unit of investment are likely to increase when these joint ventures also start remitting dividends. Even joint ventures which have been abandoned by Indian investors performed equally well on average in terms of export earnings, dividends, and other remittances. If the other components of FDI (viz., capitalization of know-how and preliminary expenses, etc., cash investment, bonus shares) are also taken into account, total Indian investments in joint ventures in operation at the end of August 1980 comes to Rs.357 million [17]. On such a basis, the cumulative foreign exchange earnings of Indian joint ventures amounted in 1980 to more than 300 per cent. In view of India's need for foreign exchange, the relatively recent start of her industrialization, and the limited international competitiveness of Indian goods, this is undoubtedly a remarkable performance. Moreover, an even higher inward flow of foreign exchange may have been hindered insofar as Indian investors might have built resources in foreign countries in order to secure greater international mobility of their capital than is allowed under existing foreign exchange rules in India.

Sufficient data are not available to analyze the effects of FDI on the balance of payments of other investing LDCs. Evidence from Thailand's experience as a host country suggests that LDC-investors cover a considerable part of their demand for import inputs with supplies from their home markets or other developing countries [23]. Further, FDI from LDCs is mostly aimed at supplying the host markets or third countries (e.g., Hong Kong textile investments in the Philippines to export to the United States or in Mauritius to meet the European demand). As a result, the balance-of-payments effect of FDI is likely to be positive in investing LDCs in general unless the exports of capital equipment and associated goods triggered through FDI and the remittances of dividends, etc., are compensated by the displacement of exports made to the host markets prior to investment there. Generalizations on export displacement in the absence of any conclusive evidence are very speculative. In the United States—the country with the largest stock of FDI—this issue has proved to be very controversial, especially between the trade unions and the American investors abroad. The former believe that the export displacement effect combined with the effect of imports by American MNCs from their foreign affiliates outweights additional exports triggered by FDI, whereas the latter argue in the opposite direction. Literature on both macro and micro studies shows that the relation between FDI and trade is indeterminate. In their relatively recent study at the macro level, Bergsten et al. concluded "that a modest amount of foreign investing is highly complementary to U.S. exporting but that higher levels of foreign investment have no strong or consistent impact on U.S. exports" [6, p. 95f.]. FDI of LDCs including India, can certainly not be considered to be anything more than modest in this sense and therefore are not likely to have a net negative effect on the balance of payments of the home countries.

VII. CONCLUSIONS

Compared with the FDI of developed countries intra-LDCs investments are very small, though their actual magnitude is not known. LDC-investors are active in mature products and rely on low-price competition. DC-multinationals prefer to invest in technology intensive and highly differentiated products dependent on sophisticated marketing efforts. Thus, in general, there is not much scope for conflict or competition between the two in the host developing countries. Rather, intra-LDCs investments are complementary to DC-investments insofar as they raise the demand in host countries for capital goods and other inputs supplied by the parents of DC-affiliates or the demand for the DC-affiliates' own products by raising national income. LDC-firms may also act as subcontractors to DC-firms in the host developing countries. Moreover firms from poor and rich countries may cooperate to set up joint ventures in third countries. A number of such joint ventures have already been established [39].

After the phenomenal growth of Japanese FDI in the seventies the rise of LDC-multinationals is the second most important factor in increasing the options of host LDCs to choose from a larger number of suppliers of investment and technology, especially in those industries which suit their factor endowments. This strengthens their bargaining power and enables them to conclude better deals. Some LDC governments have shown preference for FDI from other developing countries on political grounds. In Syria, Iraq, and Egypt, FDI from other Arab countries are given preferential treatment to promote Islamic unity [32]. Sri Lanka's trade minister is quoted as having said that his country preferred investors from countries like Hong Kong because nobody could then talk about a sell out to imperialism [15]. Intra-LDCs investments, however, have the disadvantage that LDC-investors prefer local partners of the same ethnic and cultural background and to that extent they may disturb the balance between different racial and religious communities within the host countries. Sometimes rivalry between people of different origins, as in Sri Lanka, is very strong and FDI favoring a particular community may add fuel to the fire. Reliance only on LDC-investors is also inadvisable because they are unable to supply technology for many industries requiring continuous technological development.[13]

In addition to prospective profits, LDC foreign investors are motivated, by a number of factors whose relative importance for them varies from project to project. As in the case of DC-investors the most common motive of LDC-

[13] Even in those cases where parent firms from developing countries are able to make major technological contributions at the beginning of joint ventures, they may not be able to keep up with the pace of technological progress due to lack of innovations in the home country. An early Argentinian multinational "Siam di Tella" had to sell all its foreign subsidiaries. On a contrary note, the Brazilian affiliate of Argentinian Alpargatas is now larger than its parent and probably not dependent on it for technological growth. Generalization of the Argentinian experience is, however, risky because of the stagnating domestic economy [26].

investors is to maintain existing markets and/or gain new ones. When an export market is threatened by protectionist measures of an importing country, the exporter tries to maintain his sales in that country by launching local production. Import protection in host LDCs, however, often predates the existence of many of the LDC-investments. Therefore what more often has happened is that investors from newly industrializing countries, after having achieved sufficient success in their home markets, have tried to gain ground through FDI in the protected markets of other LDCs. The market maintenance argument applies more to DC-investors because they were often supplying the markets of host LDCs before these countries became independent and introduced protectionist import barriers. Sometimes FDI is undertaken in a particular LDC to gain preferential access to a third country is market with which the host country has a preferential trade arrangement. For example, Hong Kong textile firms have established joint ventures in Mauritius in order to supply the members of the European Economic Community.

The other important motives of intra-LDCs investments are directly related to the economic and political policies of their home governments. In some cases (e.g., India) FDI is pursued as an alternative to domestic growth which is restricted by laws meant to control monopolistic practices of big industrial companies. Joint ventures or subsidiaries are also established in foreign countries to seek greater freedom from restrictive foreign exchange regulations in home countries. Geographical distribution of assets through FDI is considered more useful for this purpose than through portfolio investments which are, moreover, not permitted by most LDC governments.

Some joint ventures, especially in the public sector, are offspring of bilateral economic negotiations between developing countries. Besides helping the partner countries, the investing governments hope to raise their exports of goods and services through direct investments. Host governments, on the other hand, expect from these investments appropriate technologies free from political strings because they have the feeling of negotiating on the basis of equality. Insofar as both sides are able to realize their aims, intra-LDCs direct investments are going to increase South-South investment and trade, which will have the effect of strengthening economic cooperation among the LDCs in other fields as well. The existing experience in this field is however not without its negative aspects. The rate of unsuccessful joint ventures which are abandoned to those which continue to operate is high.[14] Though the blame for this rests primarily with the managers, especially those appointed by the parent firms, the host governments have also failed from time to time to fulfil conditions under which the foreign investments from LDCs as well as DCs were originally attracted. This suggests that host government policies toward FDI have to be more consistent and stable over time if host countries are interested in a continuous flow of resources from abroad. The same can also be said for the home LDCs with respect to DC-investors. There is no doubt that in selected industries the newly industrializing countries

[14] Among Indian joint ventures it was as high as 37 per cent up to March 1982 [18].

themselves need sophisticated technologies available only through the DC-multinationals who will not be prepared to export them before they are sure that they can count on reasonable investment conditions in these countries. The experience of these countries as investors in other LDCs should help them in drawing the right conclusions for their own policies in this field.

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