Ha-Joon Chang. 1996. Globalisation, Transnational Corporations and Economic Development – Can the developing countries pursue strategic industrial policy in a globalizing world economy? Paper presented in the Economic Policy Institute (EPI) Conference on “Globalisation and Progressive Economic Policy” (June). EPI: Washington DC.

Neo-liberal arguments concerning the role of TNCs and government response

- TNCs play a leading (if not the leading) role in globalisation and development:
    - Statistics:
        - FDI has grown 4 times faster than world trade since 1982;
        - The output of the TNCs is larger than total world trade since the 1970s
        - FDI to LDCs has increased by more than 50% in the first three years of the 1990s
        - 75% of trade in manufactures is managed by TNCs
        - 75% of R&D in developed economies is done by TNCs
    - TNCs have become more internationalised and, therefore, more stateless, as they have relocated core activities to subsidiaries (such as R&D)
    - Countries that have pursued a liberal policy towards FDI have got more FDI and have performed better. This is because FDI is a source of capital, technology, management skills and distribution and marketing networks.
- Therefore, not only TNCs are unlikely to be much affected by government policy, but also evenly liberal policies across industries and over time are more likely to be attractive to FDI.

Critique of the neo-liberal argument

- The role of TNCs and their transformation is greatly exaggerated:
    - Distribution of FDI
        - 70% still goes to the G7 countries; and ¾ of it are M&A;
        - 75% of FDI going to LDCs is concentrated in 10 countries; China accounts for the entire increase in flows of FDI to LDCs; part of FDI (in) China is Chinese money going out and back as FDI because of specific FDI incentives; if China is excluded, the actual LDC share of FDI (in) has diminished.
        - 50% of FDI (ldcs) is allocated into extractive industries
        - all these despite massive liberalisation in LDCs over the 1980s and 1990s
    - Relocation of core activities:
        - Not significant and not uniform across industries, countries and TNCs
        - Decision-makers are home bound
        - Most of relocation is to developed economies, on a regional basis (USA TNCs relocated some activities across to Canada, and European TNCs operate at the regional (EU) level);
    - Contribution of FDI to LDCs
        - In East Asia and South East Asia is minimal with exception of Hong-Kong and Singapore (city states) and Malaysia.
        - In Latin America, FDI levels and ratios are higher than in EA or SEA and economic performance is inferior.
        - In Africa, the ratio FDI/capital formation is higher than in EA or SEA and performance is quite poor.

- Role and possibilities of selective industrial policy:
  - Cases:
    - Singapore had a very selective policy, channelling FDI to industrial policy targets;
    - Korea and Taiwan, which relied very little on FDI, also had very selective policies: control of entry (labour intensive exports, critical inputs with sophisticated technology) and ownership (very significantly smaller than in LA); promotion of joint ventures; screening of technologies and costs paid for transfers; strict about local content requirements (linkages), without affecting export performance. The essential aspects are that the policies were different from industry to industry, and from period to period, and attempted to maximise economic efficiency;
    - China has played TNCs against each other to take advantage of the potentially very large people's car domestic market;
    - Poland has had few TNCs bidding for a site to a company to produce and sell cars to Europe, and the winner had to commit to another large project;
    - Korea has given the contract for a train project to a French company that was more committed to technology transfers, despite other two TNCs offering a better product.
  - Does the rise of TNCs make the future of strategic industrial policy impossible for LDCs?
    - *Arguments in favour*: globalisation leads to convergence of policy, and thus to liberalisation. TNCs, which are central for globalisation and development prospects, also demand liberalisation.
    - *Arguments against:*
      - Policy is required: appropriateness of technology and product, minimisation of surplus extraction, ensuring of technology transfers and maximisation of rents, long term prospect of development.
      - Bargaining is possible:
        - TNCs have to bargain: location specificities (resources, markets); competition amongst TNCs; role of TNCs from developing countries; "alien" vulnerability of TNCs;
        - TNCs are not necessarily footloose: investments with sunk costs (capital, subcontracting networks and other relations/linkages)
        - FDI is more affected by overall economic performance, particularly the rate of growth and growth expectancies, that by liberalisation policies. *Growth leads FDI*.
      - Policies that promote growth are more efficient than liberal policies:
        - More efficient at attracting FDI
        - More bargaining power (FDI is attracted by growth and growth creates more opportunities)
        - More gains from FDI (more bargaining power and more capabilities)
      - Selectivity is required to deal with a wide range of different problems and possibilities. A blank attitude is not wise, whether it is liberal or not with respect to FDI.

Policy options

- governments may be reluctant in applying selective policies because:
    - bargaining power is limited
    - need of resources
    - believe that TNCs are attracted by liberal policies
    - spillover of industrial policy support across the border if TNCs benefit from it.
- options:
    - in "cash cow" and capital and technology intensive industries, have an open policy towards TNCs. Need to develop capacity to extract rents and to decide what to do with rents to develop industries;
    - in industries where the country hopes to attain international competitiveness in the long run, make sure that tough negotiations maximise rents and technology transfers;
    - in industries where the country hopes to attain international competitiveness in the short run, keep TNCs out, particularly if the domestic market is small (because of the learning effects);
    - develop selective forms of interaction with TNCs more appropriate to different conditions (example, access to technology)
- policies should vary according to industry and over time, as conditions internal and external to the economy and the industry change;

Final thoughts

"(…) adopting liberal FDI policies across all sectors and industries will mean giving up one's potential bargaining power in sectors where one has it before even exerting it, and therefore does not seem particularly wise. Even if many developing countries have relatively little bargaining power vis-à-vis TNCs and that such power may be diminishing with globalisation, this does not mean that they should give up what little bargaining power they still have, as what national governments do still matter greatly for the determination of the costs and benefits of FDI." (pp. 24).

"Their (TNCs) bargaining power ranges from almost absolute (e.g., Nike looking for an investment site for shoe production) to being close to zero (e.g., automobile TNCs trying to curry the favour of the Chinese government for the people's car project), depending on the industry and country. This observation actually strengthens, and not weakens, the case for strategic industrial policy towards TNCs according to the particular sector concerned, rather than taking a uniform approach across sectors." (pp. 25).