UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

EXPANDING DEVELOPING COUNTRIES' EXPORTS IN A GLOBAL ECONOMY
The Need to Emulate the Strategies used by Transnational Corporations for International Business Development

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No. 133

March 1998

DISCUSSION PAPERS

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The author is most grateful to an anonymous referee for his detailed and valuable comments on an earlier draft of this paper. The author also wishes to thank Charles Akin (freelance proofreader and editor) and Rudy Kortbech-Olesen for their helpful comments and suggestions on previous drafts.

UNCTAD/OSG/DP/133

Comments on this paper are invited and should be addressed to the author, c/o Editorial Assistant*, Macroeconomic and Development Policies, GDS, United Nations Conference on Trade and Development (UNCTAD), Palais des Nations, CH-1211 Geneva 10, Switzerland. Copies of the ***UNCTAD Review***, ***Discussion Papers*** and ***Reprint Series*** may also be obtained from this address. New ***Discussion Papers*** are available on the web site at: http://www.unctad.org/en/pressref/prdis.htm

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JEL classification: O190 and F130

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The Need to Emulate the Strategies used by Transnational Corporations for International Business Development

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World exports have expanded considerably during the past three decades. Developed countries gained more than other countries from this increase because of the strategies adopted by their transnational corporations (TNCs). The strategies of TNCs for international business emphasizes key elements for strengthening the competitiveness of enterprises, especially technology creation and outward foreign direct investment (FDI) to access resources and markets. Most export promotion and development activities carried out by export-oriented enterprises in developing countries contribute little to boosting and upgrading their exports because these activities are based on concepts - basically free trade, comparative advantage and interrelated concepts - that do not capture the driving forces for trade development in today's global economy. Proponents of almost total trade liberalization and of a limited role of the State in the economy nevertheless overstate the importance of these concepts when advising developing countries on trade strategies. This ideological consideration benefits mainly developed countries' TNCs, which now dominate world trade. To obtain greater benefits from an outward-oriented development strategy, policy makers in developing countries should support export-oriented enterprises emulating TNCs' strategies for international business.

INTRODUCTION

Considerable effort has been made to highlight the socio-economic benefits for countries engaging in trade. These benefits have been described by many complementary, and sometimes conflicting, theories. This reflects the existence of different approaches and disagreement of economists on certain economic concepts which, in turn, largely explains why a comprehensive theory of international trade is still lacking. Trade policy makers widely consider export promotion and development activities to be valuable tools for expanding exports. When deciding which activities should be implemented to support export-oriented enterprises in developing countries to expand their exports, trade policy makers assume the validity and major relevance of some of these economic concepts. Most of these activities, however, contribute little to boosting and upgrading exports of export-oriented enterprises in developing countries, because these export promotion and development activities are based on economic concepts that do not capture the driving forces for trade development in today's global economy. These concepts - free trade, comparative advantage and other interrelated concepts - belong to the conventional theory of international trade, which does not seize the conditions which now prevail in world markets. Therefore, most of these export promotion and development activities are inappropriate for strengthening the competitiveness of export-oriented enterprises. The importance of these concepts is overstated by the advocates of almost total trade liberalization and a limited role of the State in the economy - a position which can be interpreted as part of an ideology whose major beneficiaries are TNCs which now come predominantly from developed countries. TNC activities in international business development emphasize factors which are crucial for enhancing enterprises' competitiveness, especially technology creation and outward FDI, to access resources and markets. To obtain greater benefits from an outward-oriented development strategy, developing countries' export-oriented enterprises should adopt as far as possible the strategies used by TNCs for carrying out international business.

World merchandise exports, measured in current US dollars, have increased about 25-fold during the past three decades: from US$ 133 billion in 1960-1962 to US$ 3,355 billion in 1990-1992. Developed countries, mainly through their TNCs, dominate world exports and have increased their share from 67 per cent in 1960-1962 to 72 per cent in 1990-1992; they are the leading exporters in all product groups, except fuels. The other product groups are all food items, agricultural raw materials, ores and metals, and manufactured products - the most important and dynamic product group in world trade. Developing countries increased their market share from 22 per cent in 1960-1962 to 24 per cent in 1990-1992. The big losers in the expansion of exports have been the economies in transition whose share in world merchandise exports dramatically diminished from 11 to 3 per cent during this period. The increase in developing countries' market share is explained by the substantial growth of their exports of manufactured products, which in 1990-1992 accounted for 19 per cent of world manufactured exports, compared to 5 per cent in 1960-1962. Most of this increase, however, resulted from the performance of just a few developing countries/territories in Asia. In 1992 total exports of manufactured products from Hong Kong, Taiwan Province of China, the Republic of Korea, China and Singapore accounted for 66 per cent of the exports from developing countries and 14 per cent of world exports of manufactured products. This was about eight times the total value of Latin American and Caribbean exports and about 34 times of all African exports of manufactured products (UNCTAD, *Handbook of International Trade and Development Statistics*, various issues).

Many national, regional and world-wide initiatives have been taken to increase the participation of developing countries in world exports. The creation of trade promotion organizations has been an important step in this direction. According to a study prepared by the International Trade Centre UNCTAD/WTO (ITC), there were about 100 trade promotion organizations in 92 developing countries at the end of 1993 (ITC, 1994). These organizations were created with two complementary fundamental objectives. On the one hand, they provide technical assistance to export-oriented enterprises in order to strengthen their export competitiveness and, on the other hand, they act as a catalyst and coordinator between the public and private sectors, ensuring that the effects of international trade on the national economy are taken into account. Trade promotion organizations in some developing countries promote all exports; in others they promote only non-traditional exports. Some trade promotion organizations also promote investment and assist in the procurement and management of imports. Generally, however, they concentrate on promoting readily exportable products and on adapting existing products and services to foreign market requirements. Even if trade promotion organizations in a few successful developing countries have made an important contribution to increasing their share of world exports or to upgrading exports, most of these organizations - and other institutions indirectly supporting the promotion of exports from developing countries - have failed to meet these fundamental objectives.

I. INTERNATIONAL TRADE: STRATEGIES USED BY TNCS COMPARED TO ACTIVITIES UNDERTAKEN BY TRADE PROMOTION ORGANIZATIONS

A. Strategies used by TNCs

There are now at least 38,000 TNCs controlling over 250,000 affiliates, not counting numerous non-equity links. Approximately 89 per cent of parent companies are based in developed countries, about 10 per cent in developing countries and only 1 per cent in the economies in transition (UNCTAD, 1995, Table I.2). The term TNC is generally associated with large enterprises having substantial resources, including managerial expertise, technology and other advantages. The universe of TNCs, however, is diverse. There are not only large enterprises but also SMEs, including some from developing countries.

TNCs are major players in international trade, but the development of exports is not the primary objective of their overall international business strategy. The implementation of their strategies, nonetheless, usually creates significant spillover effects for the economies in their home countries and can also be important for the socio-economic development of the countries targeted by TNC activities. Actually, TNCs' microeconomic interests have been very instrumental for contributing to the achievement of the macroeconomic objectives of their home-countries, notably developed countries. For example, through the relocation of declining industries to less advanced countries and the concentration of higher value-added industries, TNCs have contributed to upgrade, sometimes to increase or at least preserve employment levels in their home countries. Sir Leon Brittan made the following comments on criticisms by some European unions of outward FDI:

> "Fortunately, however, the populist view that outward FDI is a self-wounding search for cheap labour is very far from reality... Very often, outward investment generates additional demand for exports of capital equipment, technology and sub-assemblies from the home country. Research into the subject very rarely suggests an adverse effect of outward investment on activity or employment levels." (Brittan, 1995, pp. 2-3)

The contribution of TNCs for maintaining a favourable balance of payments for their home countries is also usually significative and includes the repatriation of significant profits from activities abroad. In 1993, profits repatriated from TNC affiliates to their parent enterprises totalled US$ 27 billion for the United States, US$ 11 billion for the United Kingdom and US$ 4 billion for Germany (UNCTAD, 1995, p. 142). Therefore, TNCs' overall international business strategy is usually fully supported by governments although it entails the transfer to third countries of resources which could otherwise be used in their home countries.

The contribution of TNCs to their home countries' economies results both from intra-firm trade and from other type of activities in world markets. As reported by the OECD (1997, p. 12), final consumer markets for some commodities are dominated by a few TNCs, which control downstream marketing, transport and distribution. Thus, a few TNCs account for 85 per cent or more of the world trade in wheat, coffee, cocoa, grains, iron ore, jute, timber, tobacco and tea. TNC strategies favour the purchasing of products and services within their production and trade systems, especially capital equipment and technology, that they cannot obtain in their target foreign markets. Because a large share of these are closely related to the production of TNCs' final products and services, they are often exported from TNCs' home countries either by the parent enterprise or by other enterprises with which they have established contacts and whose supply capacity they know about.

The activities of TNCs, through FDI and other forms, can be of major importance for the development of countries targeted by their strategies. In addition to capital, TNCs bring to the recipient countries a package of benefits and capabilities which can significantly contribute to an increase in human skills, a rise in the level of investment and savings, the adoption of more productive technologies, changes in the composition of output and employment, the development of new institutions and the generation of foreign exchange through the development of export activities. FDI can also induce multiplier effects leading to an expansion of investment by indigenous (unrelated) enterprises, including backward and forward linkages and spillovers (UNCTAD 1995, p. 144). The extent to which TNC resources are large enough and appropriate for substituting missing local factors and effectively contributing to the socio-economic development of recipient countries is of major relevance. Whether these resources generate spillovers which can become the basis of a broad and sustainable development process where dependence on TNC resources will be reduced in the future is also of major relevance.

The advantages and limitations for developing countries of hosting TNCs have been extensively analysed by UNCTAD, the former United Nations Centre for Transnational Corporations (since 1993 UNCTAD's Division on Transnational Corporations and Investment) and a large number of independent researchers and organizations. The experience of East Asian countries is of particular relevance for the analysis of FDI as an engine of export growth, because of the strong export orientation of FDI in the region and its significant contribution to recycling the comparative advantage of these countries through trade, within the regional pattern of industrialization which became known as the "flying geese paradigm". Reliance on FDI, however, has varied considerably among these countries and, because the assumption of automatic spillovers from TNC affiliates was rejected, a strategic approach, linking FDI to a wider national development strategy, particularly in relation to exporting and upgrading, has been followed (UNCTAD, 1996, p. 134). The role of the State in economic policy, especially through partnership relations with the private sector, is widely recognized as a major contributing factor for the success of economic development in East Asia. UNCTAD (1996, p. 134) draws attention to the success of Hong Kong, the Republic of Korea, Singapore and Taiwan Province of China, in reducing dependence on foreign capital for upgrading domestic capabilities, which distinguishes them from Indonesia, Malaysia and Thailand.

Several additional general issues may be raised regarding the effect TNC activities can have on the development of less economically advanced countries. As reflected by their FDI operations, TNCs