BOOKS IN REVIEW

HORIZONS FOR RESEARCH ON INTERNATIONAL BUSINESS IN DEVELOPING NATIONS

MULTINATIONAL CORPORATIONS AND THE POLITICS OF DEPENDENCE: COPPER IN CHILE. By THEODORE H. MORAN. (Princeton, N.J.: Princeton University Press, 1974. Pp. 288. $12.50.)

THE POLITICS OF OIL IN VENEZUELA. By FRANKLIN TUGWELL. (Stanford, Calif.: Stanford University Press, 1975. Pp. 210. $8.95.)

INTERCOUNTRY INCOME DISTRIBUTION AND TRANSNATIONAL ENTERPRISES. By CONSTANTINE V. VAITSOS. (London: Oxford University Press, 1974. $16.00.)

DEPENDENT DEVELOPMENT: THE ALLIANCE OF MULTINATIONAL, STATE, AND LOCAL CAPITAL IN BRAZIL. By PETER EVANS. (Princeton, N.J.: Princeton University Press, 1979. Pp. 362. $20.00.)

REGIONAL DEVELOPMENT IN A GLOBAL ECONOMY: THE ANDEAN COMMON MARKET. By LYNN KRIEGER MYTELKA. (New Haven, Conn.: Yale University Press, 1979.)

TRANSNATIONAL CONGLOMERATES AND THE ECONOMICS OF DEPENDENT DEVELOPMENT. By RICHARD F. NEWFARMER. (Greenwich, Conn.: JAI Press, 1979).

In the early 1970s the knowledge base for understanding the functioning of international business and its impact on developing nations was extremely narrow. A number of important books had just been published or were circulating in manuscript form,[1] but relatively few monographs based on empirical research were available. Since then, there has been such a dramatic increase in the number of popular and scholarly books and articles on the subject, that it is now impossible for an individual scholar to keep up with all relevant literature. The books listed here have been selected for two reasons:[2] first, each is, in the estimation of this reviewer, an excellent work that has advanced scholarship on international business in developing nations. Using data from Latin America each contains important findings worthy of broader diffusion and suggests new

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issues for further specialized research. Second, each is an original monograph based on field research. Each author has generated original and important data and has analyzed it to produce new knowledge of relevance both for practical use and for the construction of theoretical understandings of the functioning of international business and national development processes in the Third World. In doing so, each has extended the horizon for research on international business in developing nations to encompass issues of greater significance for social scientists as well as for national policymakers and international businessmen.

The books under review here were published between 1974 and 1979. Each treats an entirely different subject, yet the choice of subject, in part, mirrors changes in the concerns of students of international business and developing nations. Furthermore, the analyses contained in the three more recent books under review have been built upon the advances of the three earlier works, and one theme receives consistent emphasis in all: to understand the impact of international business on developing countries, two key institutions require careful analysis—transnational corporations (TNCs) and host-country governments.

The two earliest books report research begun in the late 1960s, a time when a number of host-country governments were moving to nationalize large foreign holdings in natural resource industries. Moran and Tugwell analyze important chapters in this history. These books have become standard references for scholarly research on international natural resource industries and have had an impact on the scholarly study of international business in developing nations that transcends the significance of the events they analyze. Both studies examine their cases in great detail. In doing so they demonstrate that relations between host countries and transnational corporations cannot merely be described as "conflictual" or "collaborative." Both Chile and Venezuela sometimes had interests that came in conflict with those of TNCs, but they also had substantial areas of shared interests. In firmly basing their case studies in Chilean and Venezuelan history, both authors show the changing importance that international business had for domestic interest groups and the changing abilities of these groups, both in the private sector and in the government, to bargain with the foreign firms. At the same time, both authors show that issues of managerial control and the division of financial benefits were hammered out in the context of the shared interest of TNCs and host governments in the orderly functioning of international commodities markets in which Chilean copper and Venezuelan oil would command steady sales at prices substantially above production costs. Both of these volumes also show how these interests changed as Chilean and Venezuelan politics changed, as Chilean copper and Venezuelan oil became more or less important to the TNCs exploiting them, and as international markets for copper and oil fluctuated.

Reading *Copper in Chile* or *The Politics of Oil in Venezuela* introduces readers to the complexity of political and economic relations that must be taken into account to describe the operations of TNCs in host countries. Both Moran and Tugwell show that the oligopolistic market power of TNCs allowed Chilean copper and Venezuelan oil to generate total revenues through the 1960s far in excess of what would have been possible for Chile or Venezuela acting alone. As this revenue increased it became a significant national issue in both countries first to alter the division of income between the host country and the TNC, and then to alter the division of managerial control between the two parties. Moran describes the steps leading up to Chile's nationalization of its major TNC-owned copper mines which resulted in substantial disruption to copper-generated revenues both to Chile and to Anaconda, Cerro, and Kennecott, the TNCs in question. Tugwell describes the steps leading to Venezuelan takeover of its petroleum industry, a nationalization with its own share of hard feelings, but with far fewer disruptions for host country and TNCs, thanks to negotiations that altered Venezuela's role in the international petroleum oligopoly without immediately shrinking cash flows to oil TNCs.

Both of these books are of substantial historical and practical interest. In addition, both authors enhanced the value of the case studies by using them to examine important theoretical issues. Each explores three interrelated sets of issues that have grown to be central to the study of the political economy of development: (1) the nature of dependent development, (2) the nature of TNC-host country relations, and (3) the options available for nationalist public policy-making in developing nations. Of the two case studies, *Copper in Chile* tackles theoretical issues in a more comprehensive fashion. Moran demonstrates convincingly that Chilean "dependent development" does not merely involve the exploitation of Chile by developed countries. Rather, it involves participation in an integrated international system, and that breaking ties to that system would mean that Chile would not be able to use the full force of its market power to serve its own national interests. The dilemma of how to alter the ties particular developing nations have to the international system while advancing national development objectives is common to the themes of all the books listed above. The discussion of this dilemma in *Copper in Chile* leads into the construction of "the beginnings of a general theory of foreign investor-host country relations." This theory, in turn, provides parameters for the formulation of public policy that would enable Chile to take into account the operations of the international copper industry while pursuing its own national interest.

The theory of foreign investor-host country relations in *Copper in Chile* has been seminal for later research. It is composed of two parts: a dynamic bargaining model, plus three factors used to predict conflict or cooperation in TNC-host relations. The bargaining model has a short-run component and a long-run component. In the short run, clarification of outcomes of investment or political situations will result in shifts in the balance of power between investor and host. In the long run, more durable shifts can occur as a result of increased skills and confidence on the part of the host or if the foreign investor strengthens its position by creating new barriers to entry. The three factors used to predict conflict or cooperation are: (1) the prominence of the TNC's investment in the host country, (2) host country perceptions of the cost of carrying on without the contribution of the TNC, and (3) host country groups' ability and desire to maintain or expell the foreign investor.

Moran's analysis of the options available to Chile's nationalized copper industry suggests that the issue for developing countries is not how to beat international oligopolies, but rather what arrangements will allow them to become oligopoly members on the most advantageous terms. For copper producers this would mean the careful construction of dependable relations with processers and consumers in industrialized countries as well as cooperation with other producers. For oil producers, who control a product with wider uses and fewer substitutes, the emphasis would be reversed: careful construction of cooperative relations with other producing countries (i.e., OPEC) as well as cooperation with processers and consumers in industrialized countries. For the producers of manufactured goods, integration with international oligopolies is more complicated, involving a variety of partnerships among TNCs, local private sector producers, and host governments. Moran's analysis does not touch on this topic of links between developing nations and international manufactured goods oligopolies inasmuch as Chile's economy is dominated by copper (this is, however, the subject of books by Evans and Newfarmer, reviewed below).

The Politics of Oil in Venezuela places most of its emphasis on "analyz[ing] and evaluat[ing] the performance of Venezuelan authorities . . . and relat[ing] their actions to the operation of the political process" (p. 4). However, from his analysis of bargaining between the Venezuelan government and the petroleum TNCs, Tugwell extracts a theoretical conclusion of great importance for policymakers in developing nations: that forceful and admittedly experimental bargaining can provide host country policymakers with an accurate sense of the range of alternatives available to them. This would include knowledge of how extracting increased amounts of income or control would affect the willingness of the TNCs to cooperate with them in the functioning of the international industry. It would also include knowledge of the effectiveness of particular policies for achieving desired outcomes as well as knowledge of the kinds of additional factors of production needed to permit the host country to participate more fully in the international industry. Tugwell labels this insight "The Strategy of Assertive Experimentation" (p. 146). This suggests that possible benefits accruing to a host country from bargaining with foreign investors does not merely consist of increased flows of factors of production. Rather increased learning, both about the bargaining process and about the international industry in which the TNC operates, may result in long-term benefits to host countries.

Copper in Chile and *The Politics of Oil in Venezuela* thus combine descriptions of the national political contexts in which important nationalizations of TNC assets took place with explanations of the global circumstances of the TNCs involved, the international structure of the copper and petroleum industries, and the dynamic historical context in which all of these interacted. In doing so, Theodore Moran and Franklin Tugwell advanced the mid-1970s standard for research on international business in Latin America. Their pioneering case studies did just what case studies are supposed to do: they identified the important elements of the problem that needed to be taken into account and linked them to major theoretical issues. Having moved the horizon of research on TNC-host country relations, it became the task of future research to see if Moran's and Tugwell's points were relevant for other cases and for other industries and to

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address additional questions related to international business in Latin America and other Third World areas.

Just as *Copper in Chile* and *The Politics of Oil in Venezuela* broke new ground in the study of TNC-host country relations and their impact on national development, Constantine V. Vaitsos' *Intercountry Income Distribution and Transnational Enterprises* broke new ground for the analysis of how transnational corporations exercise control over the transnational flow of factors of production. The purpose of this book is explicit: "To examine some of the major economic reasons for controlling the activities of transnational enterprises in the Third World insofar as they affect the generation and distribution of income" (p. vii). Vaitsos' success in realizing this objective has, to some degree, overshadowed the scholarly contributions of *Intercountry Income Distribution*. His research on transfer pricing[3] (reported in chapters 3–5) resulted in substantial balance-of-payments savings for Colombia (the country in which Vaitsos carried out his research), the adoption of legislation regulating interaffiliate transactions by many Third World nations, and the transformation of pricing policy in the international pharmaceutical industry[4] (Vaitsos' research covered the chemical, electronics, pharmaceutical, and rubber industries). An example of the reactions to Vaitsos' work is Raymond Vernon's treatment of it in *Storm over the Multinationals: The Real Issues*. Vernon devotes five pages to explaining why Vaitsos' Colombian findings are atypical of interaffiliate transactions, and makes no comment on any other aspect of the book.[5]

In fact, *Intercountry Income Distribution* addresses a wide range of issues, and transfer pricing is but one of them. The book seeks to explain, in effect, precisely what makes transnational corporations transnational. In his introduction, Vaitsos states that his goal is to explain neither the causes nor the effects of direct foreign investment but to discuss how TNCs control transnational flows of factors of production so that intercountry income distribution corresponds to TNC objectives rather than the development objectives of countries in which TNC affiliates are located. Vaitsos begins by discussing how TNCs augment returns from a direct foreign investment or from the sale of technology by selling capital, technology, managerial skills, and market access in a package rather than as single inputs. With this groundwork he explains how TNCs can choose among a variety of mechanisms to channel their profits to locales that best suit their global objectives. He then goes on to discuss factors that affect the choice of country in which companies decide to declare profits. These range from current TNC global priorities to the effect of government policies such as levels of corporate taxes, fiscal charges affecting transfer pricing, requirements for local ownership of firms, and limits on profit and royalty remissions. This comprehensive discussion of factors affecting intercountry income distribution is developed, in part, as a critique of traditional economics' separate treatment of factors of production such as capital and technology in discussions of economic performance, and, in part, as a report of the author's experience working in the Planning Department of Colombia and in the Andean Pact.

Intercountry Income Distribution thus uses data from Latin America to demonstrate the impact of TNC behavior on flows of factors of production to and from the region; identifies mechanisms available to TNCs to facilitate flows to or from any business locale; discusses reasons why a TNC would channel flows in one direction or another; and identifies policies nations can adopt to regulate these flows. This reveals more than that certain TNCs have priced goods higher in Latin America than they have in industrialized countries. Vaitsos points out that TNCs have a wide range of instruments available to channel capital, technology, raw materials, and management skills to locales that suit global strategy. While such circumstances may, at times, benefit Latin American nations, Vaitsos argues that leaving the power to regulate such flows entirely in the hands of TNCs endangers national development planning. He further suggests that nations can adopt policies to regulate factor flows and presumably develop working relations with TNCs that allow reasonable factor-flow mobility in exchange for sufficient factor stability to allow for medium-term development planning.

This message, while central to *Intercountry Income Distribution*, is sometimes difficult to extract because of the brevity of the presentation (144 pages), because the style of presentation is somewhat technical, and (for Americans) because the language conforms more to British than American scholarly usage. However, readers wishing to understand both the complexities and the new directions of research on international business in Latin America should make the effort to digest this book. Understanding will be facilitated by a careful reading of the Introduction, and by referring to it when sections appear not to be related. This book, perhaps more than any other recently published monograph, has widened the horizon of research on transnational corporations to include the network of interaffiliate relations that makes corporations transnational (able to operate across nations) rather than merely multinational (able to operate in many separate nations).

By specifying the nature of interaffiliate relations this book also suggests important areas for new research. The impact of factor flows among TNC affiliates depends both upon the ability of host countries to regulate those flows and upon the purposes pursued by corporate management. The books reviewed here have made important contributions to knowledge about host country regulation of TNCs. Less emphasis has been placed on relating the behavior of TNCs in developing nations to their larger transnational strategies. Moran's discussion of TNC copper strategies and Newfarmer's treatment of the international electrical industry are important first steps in the analysis of the impact of TNC strategy on developing countries, but much room remains for further research.

The final three books under review were published during 1979. In the years that have passed since the publication of the first three, a new set of issues has emerged. (1) Nationalization of affiliates of TNCs in natural resource industries has been largely completed. Issues related to TNC ownership of natural resource subsidiaries in Third World nations, while still important, are less salient. (2) The current focus includes host country relations with TNCs operating in manufacturing industries, to better understand the over-all impact of international business on national development. (3) Relations between host countries and TNC operations in the service sector (e.g., accounting, banking, consulting, insurance, tourism, transportation) are also being included in ongoing research.

(4) Finally, the scope of research has also been broadened. Each of these three newer books locates international business in Latin America in the context of the evolving international economic order.

Peter Evans's *Dependent Development* shows both how a diverse set of economic actors can forge effective alliances and how such alliances can function to tie a Third World nation firmly to the international capitalist economic system (and, in turn, stabilize that system). The possibility of mutual interests documented in *Copper in Chile* and *The Policies of Oil in Venezuela* is moved to center stage in *Dependent Development*. Evans examines alliances involving the Brazilian state, Brazilian capitalists, and transnational corporations in a wide range of industries: auto parts, mining, petrochemicals, pharmaceuticals, and textiles. Such alliances are formed due to TNCs' interest in marshalling factors of production from the international system, especially sophisticated technology, in exchange for profits resulting from Brazilian development; the state's interest in stabilizing Brazil's domestic political and economic environment, in exchange for support for its development plans from the international system; and local capital's interest in integrating allied ventures into local industrial structure in exchange for its share of profits and control.

Evans places such arrangements in historical perspective by distinguishing the situation of "dependent development" from what he calls "classic dependence." Both situations involve dependence of the host country on the international system, but dependent development refers "to cases where capital accumulation and diversified industrialization of a more than superficial sort are not only occurring in a peripheral country, but are dominating the transformation of its economy and social structure" (p. 32). Evans stresses that dependent development is not "the negation of dependence," but that it is "dependence combined with development" (pp. 32–33). His discussion of this concept helps explain why Brazil has continued to rely on the international system for continued development, despite its vulnerability to disruptions in the international system. He also makes clear that, while a handful of other Third World nations such as Mexico and Nigeria may follow development trajectories in some respects similar to Brazil's, few others have state apparati capable of forging such alliances, local capitalists capable of integrating them into domestic economies, or sufficient domestic markets or natural resources to interest TNCs in integrating allied projects into their global networks.

In describing dependent development in Brazil, Evans also identifies important contradictions inherent to this pattern: (1) the number of local capitalists with sufficient resources to participate in such alliances is relatively small, thus differentiating the interests of internationalized Brazilian capitalists from those with purely domestic interests (and making democratization of Brazilian development a threat to alliances with TNCs); (2) as Brazil and other host countries become increasingly attractive bases for TNC operations, home countries will become resentful of losses of jobs and tax revenue (possibly bringing home-country government pressure to bear on TNC involvement in such alliances); (3) as the state becomes increasingly involved in such economic activities, it may have difficulty relinquishing economic space to the private sector (thus provoking dissension between the host country state and its domestic capitalists). However, despite Evans's discussion of such contradictions, *Dependent Development* is a convincing argument that Brazilian development of the past twenty years contains important lessons for students of future national development in the Third World and for students of the evolution of the international system. Evans' conclusion that Brazil's path will be followed by few other nations makes clear that for some nations Brazil's experience is in the realm of the possible, while for most it is impossible.

Dependent Development thus poses new questions about the roles of TNCs and developing nations in the evolution of the international order, and about TNCs, state capital, and local private capital in the development of Third World nations. In doing so, Evans underscores the importance of research focusing on the role of the state in national development in Latin America. New research on this topic suggests that the ability of the state to participate in alliances such as those described by Evans may be linked to state actions that exclude popular sectors from sharing political power or the economic gains of development.[6] Evans suggests that more research is needed on this topic to clarify the manner in which the state enters the bargaining situation with TNCs and local capital, to understand the nature of the benefits required by state enterprises and other elements of the state apparatus, and to gauge the impact of these alliances on the welfare of the larger population.

Brazil's development prospects are hardly typical of Third World nations. Peter Evans points out that, in 1973, among nations with per capita GNP less than $900, only Brazil, China, India, and Mexico had total GNPs in excess of $30 billion (p. 293). Lynn Krieger Mytelka's *Regional Development in a Global Economy* discusses an attempt by a group of smaller nations (Bolivia, Colombia, Ecuador, Peru, Venezuela, and [until 1976] Chile) to accelerate their national development through a collective solution: regional integration.[7] Lacking large internal markets, the governments of these six nations on South America's west coast concluded, in the late 1960s, that alliances such as those that sparked Brazil's development were less feasible for them. Furthermore, in these countries nascent national bourgeoisies were able to gain control of the instrumentalities of the state and to form alliances that weakened the power of local groups more strongly tied to international capital. The result was the signing, in 1969, of the Cartagena Agreement (Acuerdo de Cartagena) and the formation of an Andean integrative system designed to strengthen national autonomy in economic policymaking through the combination of regional regulation of direct foreign investment and technology with regional industrial planning and regional development finance. Furthermore, both national capital formation and the development of indigenous technology were to be hastened through the requirement that TNCs gradually relinquish control of their assets to the host country state or to local capitalists.

Lynn Mytelka analyzes the first ten years of this attempt at regional integration in *The Andean Common Market*. She clearly shows both the technical complexities of the regional integration scheme and the political tensions among the nations involved as well as attempts by TNCs to transform the process to fit their own needs. She extends the horizons of research on international business by showing precisely why small nations are confronted with serious obstacles as they attempt economic development, especially if they simultaneously attempt to distribute gains from development in an equitable fashion.

The concern with equity among member nations was central to the design of the Andean Common Market. It was necessary that each national government feel that its interests were being furthered for the signatory nations to agree to participate in the integration scheme. Perceptions of equity become more difficult to maintain as the parties involved become increasingly heterogeneous. This potential problem was recognized at the outset of the creation of the Andean Common Market and special provisions were incorporated into policy instruments to reinforce the situations of the two smaller signatory nations (Bolivia and Ecuador). Equitable domestic development was also a concern of the founding governments and, as a result, policy instruments were constructed so that in each nation the state would orient the direction of national development resulting from regional integration.

As a result, the task for the junta (the Common Market's central planning body) was immense. The junta had to develop guidelines for both the international and domestic economic policies of six nations that would advance their development in a fashion seen as equitable. Furthermore, to be able to sustain perceptions of equity, it was necessary that the junta develop structures that would result in at least minimally uniform regulation of these guidelines.

This task was made even more difficult by the political forces affected by those guidelines. The junta had to contend with pressure from international capital and its domestic allies who objected to provisions in the guidelines that limited their freedom of economic action; the central role of government in development planning; limits on profit remission; requirements for divestment of ownership; and increased regulatory paperwork. Constant pressure from those quarters has transformed much of the original intent of the integrative process. Profit remission levels have been raised, ownership divestment has been delayed, industrial programming has been slowed, and most important, the Common Regime for the Regulation of Foreign Capital has been modified to favor joint ventures between TNCs and local partners, thus diminishing the orienting role of the state in domestic development processes.

An equally difficult political problem for the junta has been the changing character of the governments of the member states during the decade of the 1970s. In the late 1960s and early 1970s, regimes in Bolivia, Chile, and Peru took the lead in advocating strong state planning in national development. The death of Rene Barrientos in Bolivia, the overthrow of the Popular Unity government in Chile, and political and economic problems in Peru have changed the relationships of those governments to the original purposes of the integration scheme and have been especially important for weakening prospects for state and purely national private firms in Andean countries, while making alliances between local firms and TNCs more feasible.

Mytelka asserts that "rigorously applied regulatory policies and rational economic planning" would have been more possible if national constituencies had been mobilized in support of the original purposes of the integration scheme. She points out that the national agencies responsible for implementing Andean policies were separately linked to the junta and were not linked among themselves. The absence of information exchanges and meetings of personnel of these national agencies is cited by Mytelka as reducing the regional impact of the regulation of TNCs and increasing difficulties for regional industrial planning (p. 191).

This diagnosis of organizational deficiency reminds readers of the complexity of the tasks confronting junta planners. However, Mytelka's description suggests that the complexity of coordinating six increasingly heterogeneous national governments was a less important obstacle to the success of the Andean Common Market than the unorthodox position of the scheme in the international economic and political system. International pressure on Andean Pact member countries was immense. These nations are relatively small, their governments were not stable, yet they were attempting to promote a scheme in which power to orient national development was shifted from international business to host-country states without negotiation. The scheme was met with skepticism and opposition on both domestic and international fronts. TNCs, foreign governments, and domestic groups expressed doubts that the original purposes of the scheme could be sustained long enough to have a clear impact. Furthermore, when their interests came into conflict with the purposes of the scheme, they pressured for change. In 1979, on the tenth anniversary of the signing of the agreement establishing the Common Market, many of its unique characteristics had been altered and its membership had been diminished by the resignation of Chile in 1976.

The Andean Common Market describes the ambitions and frustration of a scheme constructed because the governments of six small and middle-sized nations felt that they could not promote equitable development within their borders individually in the context of the existing international economic order. As a result they constructed a framework that made the state central to development decisions and gave foreign capital and local capital lesser, but clearly defined, roles. Pairing this with the development scheme described by Peter Evans in *Dependent Development* juxtaposes two alternate courses for Third World nations: to attempt to determine the role of international business in domestic development on the basis of schemes developed by national government planners or to allow the role of international business to evolve from bargaining and alliance formation among international capital, domestic capital, and the state. *The Andean Common Market* indicates that the former solution, if feasible, requires considerable consensus and considerable time to work out, especially among groups of nations, but also for individual countries. This suggests that small, poor, Third World nations are in a particularly painful bind: they lack internal markets and natural resources of sufficient value to make them attractive to international business on terms other than those set by TNCs, if at all. On the other hand, whatever assets they possess can easily become the focus of struggles that prevent stable host-country alliances permitting effective bargaining with international business. Although this is not a hopeful prospectus for the small, poor nations in which most people of the Third World live, it does clarify the nature of the problems that need to be surmounted if Third World national development is to be guided by the plans of domestic policymakers.

This clarification of issues also underscores the need for additional research on options available to smaller developing nations. *Copper in Chile* suggests that development can be best accelerated by working out dependable international economic relationships. Can Chile develop alliances such as those of Brazil, which generate market power in non-copper-related industries? Do developing nations require large domestic markets to work out beneficial alliances with manufacturing TNCs? Can the Dominican Republic, an important but not dominant sugar producer, build alliances with other producers and with customers that accelerate its development? What about Bolivia and tin or Jamaica and bauxite? Questions such as these must be answered on the basis of detailed empirical research. None of these small countries is as important to the functioning of the global economy as are larger Third World nations such as Brazil and Mexico. None has as crucial a product to sell as Venezuela's oil and none controls as much global supply of a product as Chile does of copper. However, these questions are central for researchers whose main concern is determining the impact of international business on development in Third World nations and for whom understanding the trajectories of current patterns of international business are interesting principally because they indicate some of the parameters within which developing nations' economies operate.

Each of the books discussed so far has widened the horizons of research on international business in Latin America by analyzing data from important recent historical circumstances and providing readers with practical knowledge about those circumstances as well as broader theoretical conclusions of use for understanding these and other situations. While these books have discussed the nature of domestic development, the role of international business in that process, alliance formation among domestic groups, bargaining between TNCs and host governments, and the nature of the international industries of which TNCs are a part, the least emphasis has been placed on detailed analyses of these international industries. One such industry—the electrical industry—is the subject of Richard S. Newfarmer's *Transnational Conglomerates and the Economics of Dependent Development: A Case Study of the International Electrical Oligopoly and Brazil's Electrical Industry*.

Newfarmer uses the term "transnational conglomerates" rather than "transnational corporations" to highlight "various dimensions of potential economic power that stem from TNC large size, centralized global administration, and multimarket operations that span many nations" (p. ix). The incorporation of a detailed discussion of the international electrical industry rather than single TNCs is one example of the attention of this book to the complexity of the impact of international business on national development; Newfarmer's discussion of conglomerates rather than corporations is another example of this; a third is his discussion of both the international industry and Brazil's domestic industry; a fourth is his repeated concern with both the intercountry distributional effects of a given national policy or TNC practice and with the impact of these on the fulfillment of the needs of the poorest segments of Brazil's population.

The "working hypothesis" of the book is that the international electrical industry is sufficiently concentrated that TNCs recognize their mutual interdependence and act to limit competition and raise their share of gains from trade and investment. Newfarmer poses this hypothesis in contrast to a "workable competition" hypothesis that TNCs involving themselves in international trade and investment will increase the number of firms selling similar products thus increasing competition and keeping prices low to buyers. Inasmuch as the existence of domestic and international cartels in the electrical industry has been reported by previous research and has been the subject of a number of antitrust cases in the United States, this working hypothesis is hardly surprising.[8] However, Newfarmer's detailed analyses of the cross-equity holdings, joint ventures, cross-licenses, consortia agreements, and formal cartel arrangements that bind together the small number of major and larger number of minor electrical firms clarifies how this comes to pass.

Newfarmer reaches the conclusion that "the tactics of the TNCs have muted price competition and have undoubtedly resulted in higher prices to buyers from developing countries and higher percent returns to TNCs." These include both the intrafirm controls discussed by Vaitsos and oligopolistic strategies such as mutual forbearance in export marketing and investment, market allocation agreements, collusion in price setting, and other tactics designed to control markets. However, he expresses even greater concern that operation of the international oligopoly creates barriers to the entry of new firms in both developing and developed countries, thus increasing the concentration in intercountry income distribution, and lessening world-wide consumer welfare.

The other side of the coin, of course, is that Brazil has welcomed the participation of electrical TNCs in its economy, and, as a result, has received substantial benefits through initial investments, the transfer of technology, tax revenues, and local production and employment. However, it is Newfarmer's contention that some returns now going to TNCs could accrue to Brazil if the federal government were to take a more active role. He then lists countervailing government options in the areas of finance, technology development, state enterprise creation, and TNC regulatory policy that would "improve its bargaining power vis-à-vis the TNCs . . . and affect the long-term flow of returns to Brazil's benefit."

After taking up the themes developed by Vaitsos in *Intercountry Income Distribution*, Newfarmer's final chapter addresses issues posed by Evans in *Dependent Development*. He concludes that heavy TNC participation in dynamic economic sectors serves to accentuate the peaks and troughs of domestic business cycles and "accords them a pivotal role in a solution to economic crisis." He hypothesizes that the central role played by TNCs in the "dependent development model" constitutes a powerful barrier to "host government attempts to undertake economic reform that constitutes a move away from the consumer oriented trickledown path of uneven development," ominously suggesting a negative answer to Evans's question of whether alliances between the state

TNCs and domestic capital can take into account the basic needs of the larger population.

The books discussed in this essay have clarified important aspects of the impact of international business on national development. All show that discussions of this topic must take into account both domestic circumstances and those occurring in the international system. At the national level five topics must be addressed: (1) What is the nature of the nation's development process? (2) How does the state attempt to further national development objectives? (3) How do domestic private sector groups attempt to further their interests? (4) How do foreign firms attempt to further their interests through operations involving the nation in question? and (5) How are alliances formed and bargains struck among these three parties?

At the international level questions must be asked about how operations in specific countries fit into the global plans of TNCs; about how plans of specific TNCs fit within the operations of the international oligopoly; about how other countries might be organized to find collective solutions to national development problems; about the national objectives of home countries of TNCs and how these can impinge on host country national development; and about how different nations, different transnational corporations, and other transnational actors together form an international system that itself places limits on national development.

Such questions become increasingly complex as the nature of international business continues to change. In the 1970s transnational corporations continued to expand. The stock of world-wide foreign direct investment grew from $158 billion in 1971 to about $287 billion in 1976. However, the rate of growth during that period was slightly less than that of the combined gross national product of the developed market economies, where almost all of the investment stock originates.[9] This recent trend contrasts with reports of TNC watchers in the 1960s who reported TNC international production to be growing at twice the pace of world output[10] and who suggested that, by the mid-1980s, TNCs would own two-thirds of the fixed assets of the world[11] (their holdings have been estimated at half of this level since the early 1970s), and who predicted that approximately three hundred "super-giant firms" would dominate the world's economy[12] (the U.N. report cited in note 9 states "available evidence indicates the relative importance of large firms in total foreign sales has declined in the 1970s" [p. 35]).

Although the trends of the 1970s suggest that there are limits to the growth of large internationalized firms, TNCs continue to be the principal vehicles through which industrialized nations structure their international production and exchange. However, the national composition of TNCs is changing with United States, United Kingdom, and France-based TNCs growing at a pace slower than those based in West Germany, Japan, Holland, and Switzerland, as well as the emergence of TNCs based in some developing nations.[13] Incorporating the significance of these changes is a major challenge for future research.

Changes in the composition and growth of internationalized firms are not the only alteration in the international business environment. Since the early

1970s, both home and host countries have implemented measures that restrict TNCs. Host country initiatives were most intense until 1975, when falling commodity prices reduced export earnings of less developed countries (LDCs), brought their problems of international indebtedness to a head, and shifted the focus of international economic rivalries from north versus south to the United States versus Western Europe versus Japan.[14] Since that time, LDCs have followed separate courses in relating to TNCs in the world economy, with more prosperous Third World nations such as Brazil and Saudi Arabia pursuing interests that diverged from the construction of a new international economic order for north-south relations. Although political unity among the diverse LDC host countries may prove illusory, it is still necessary for TNCs to adjust carefully their business operations in many developing nations. In a growing number of countries TNCs must take into account restrictive legislation modeled after legislation such as the Andean Common Market's Common Regime for the Regulation of Foreign Capital or Mexico's Law on the Transfer of Technology. Furthermore, new economic actors have emerged in a number of developing countries, some of whom are playing important international roles. For example, Latin American nations ranging from Argentina and Brazil to Peru and Venezuela have formed state enterprises to promote domestic economic interests. These have changed host country relations with TNCs and, in some instances, have permitted national firms to operate in international industries previously dominated completely by developed nation-based TNCs. Some of the state enterprises, together with some privately held firms, have taken the additional step of establishing operations in other nations and are functioning as TNCs. State owned firms such as Brazil's Petrobras and Chile's Codelco, as well as privately owned enterprises such as the Argentine export house Bunge Born and the Brazilian Constructora Mendes Junior, must now be taken into account by older TNCs when framing global strategies.[15]

Home countries of TNCs, facing serious post-1973 economic problems, have taken steps of potentially more far-reaching significance. The United States Congress has passed antibribery legislation and trade restrictions designed to bolster the moral image of United States-based TNCs, and has consequently reduced their room for maneuver. Both the United States and the United Kingdom have, at times, imposed limits on the availability of domestic capital for foreign investment. NATO countries and Japan restrict the transfer of technology and export of products deemed of direct military application to centrally planned economies. Sweden requires the evaluation of its direct foreign investment in terms of impact on domestic capital flows, industrial development, and employment. Proposals for similar provisions have been made in the United States and other home countries.

These rapid changes in the nature of the world economy, of the activities of TNCs, and of home and host country policies have placed great demands on the task of understanding the impact of international business on Latin American and other developing and developed nations. It would be naive to imagine that current scholarly literature could provide a precise and up-to-date understanding of the current activities of international business in developing nations;

the pace of change in business and the scant resources available to carry out such research preclude this. Nevertheless, empirical research such as that presented in the six books discussed here has enhanced understandings considerably. In doing so it has not only widened the scope of current knowledge but it also points to new horizons for future research.

LOUIS WOLF GOODMAN
Yale University

NOTES

1. For example, Yair Aharoni's *The Foreign Investment Process* was published in 1966 (Boston, Mass.: Harvard Business School), Edith Penrose's *The Large International Firm in Developing Countries* in 1969 (London: Allen & Unwin), Mira Wilkins' *The Emergence of Multinational Enterprise* in 1970 (Cambridge, Mass.: Harvard University Press), Raymond Vernon's *Sovereignty at Bay* in 1971 (New York: Basic Books), and Stephen Hymer's *The International Operations of National Firms* circulated as a Ph.D. dissertation from 1960 until it was published in 1976 by the M.I.T. Press.
2. Although these six monographs provide an excellent start, many other fine books have been written on international business in developing nations, using data from Latin America, since 1970. Some are listed in the notes to this essay.
3. Transfer pricing is the setting of prices of goods and services exchanged by affiliates of a single corporation. In the case of TNCs, if such exchanges are unregulated, the manipulation of transfer prices allows the firm to declare profits in locales that minimize its tax liability or achieve some other corporate objective, rather than relating prices to value added in a given locale.
4. Reported in C. Fred Bergsten, Thomas Horst, and Theodore H. Moran, *American Multinationals and American Interests* (Washington, D.C.: The Brookings Institution, 1978), p. 379.
5. See Raymond Vernon, *Storm over the Multinationals: The Real Issues* (Cambridge, Mass.: Harvard University Press, 1977), pp. 154–58.
6. For a synthesis of current research on this topic, see David Collier (ed.), *The New Authoritarianism in Latin America* (Princeton, N.J.: Princeton University Press, 1979). A recently published study concerned with these issues, which includes a chapter on the state and international business, is Alfred Stepan, *The State and Society: Peru in Contemporary Perspective* (Princeton, N.J.: Princeton University Press, 1978).
7. For a discussion of the operations of TNCs in a small developing nation, see Charles T. Goodsell, *American Corporations and Peruvian Politics* (Cambridge, Mass.: Harvard University Press, 1974). This book differs from those under review here by examining political impacts and paying less attention to the consequences of international business for economic development.
8. See, for example, Mira Wilkens, *The Maturing of Multinational Enterprise* (Cambridge, Mass.: Harvard University Press, 1973), pp. 65–72 and 294–95; and two reports prepared by the Federal Trade Commission, *Report on the Supply of Electrical Equipment and Competition in the Industry* (Washington, D.C.: G.P.O., 1928) and *Report on International Electrical Industry Cartels* (Washington, D.C.: G.P.O., 1948).
9. Data and analysis of the changing role of TNCs in the world economy can be found in the United Nations publication, *Transnational Corporations in World Development: A Reexamination* (New York: United Nations, 1978, E/C.10/38). Changes in foreign investment stock can be found on page 36.
10. See Judd Polk, "The International Corporation," *Hearings before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee, Congress of the United States*, 27–30 July 1970.
11. See Arthur Barber, "Emerging New Power: The World Corporation," *War/Peace Report*, Oct. 1968.

12. See Howard V. Perlmutter, "Super-Giant Firms in the Future," *Wharton Quarterly* (Winter 1968).
13. The growing diversity in TNC home countries is discussed in Tamir Agmon and Charles P. Kindleberger (eds.), *Multinationals from Small Countries* (Cambridge, Mass.: The M.I.T. Press, 1977).
14. The impact of these changes on developing nations is discussed in Albert Fishlow, Carlos Diaz-Alejandro, Richard R. Fagen, and Roger D. Hansen, *Rich and Poor Nations in the World Economy* (New York: McGraw-Hill, 1978).
15. For a discussion of new injections of developing countries into international business, see David A. Heenan and Warren J. Keegan, "The Rise of Third World Multinationals," *Harvard Business Review* (Jan.–Feb. 1979):101–9.