CHAPTER II

REVIEW OF LITERATURE

Existing literature in historical, theoretical and empirical perspectives about the role of exports and DFI in the industrialisation and economic development of TWCs, has been reviewed in this chapter.

The historical growth experience of the present day developed countries: viz. Britain, United States, Sweden, Netherlands, Belgium, Canada and more recently Argentina, Australia, New Zealand and Scandinavian countries reveal that export has proved great stimulant for their industrialisation\(^1\). The example of UK is quite unique and needs elaboration.

During 1850-1873 growth of British foreign trade was recorded very high. According to Habakkuk\(^2\), the export-value of Britain, increased by 47 percent in 1840, 90% in the 1850, 47% in 1860, which had resulted in outward and upward shift of the production

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possibility curve and had made Britain the “workshop of the world” for her industrial goods and exports. The rate of expansion of British exports was far higher than ever before. Meyer\(^3\) using-input output analysis explained as to why the rate of growth remained impressive during 1850-73 and how it affected British Industrial production in the late 19th century.

In case of economic development of Canada the linking of the growth of other activities to the export boom is considered one of the secrets of the Canadian economic growth. The expanding export base brought the mechanism of accelerator and multiplier in the economy through three linkages (backward, forward and demand) started functioning with the expanding exports that made the Japanese fly like a wild bird from an open cage after the opening up of the country\(^4\).

\(\text{Smith}^5\), Ricardo\(^6\) and Mill\(^7\) argued that international trade promotes growth as it provides international division of labour.

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extends size of market, raises the skill and dexterity, encourages technical change and brings about an optimum allocation of resources in the world, thereby leading to enhancement of real income of the trading countries. Also the growth of 'International trade might make people' acquainted with new objects' and the easier acquisition of things which they had not previously thought attainable, sometimes works a sort of industrial revolution in a country whose resources were previously undeveloped. They stressed that the trade itself changes the quality and quantity of the factors and brings industrial revolution in an underdeveloped country.

The liberal school, supported by Haberler, Nurkse, Caves, Meier, Cairncross, Robertson, Rostow, J.S.Mill, Doublass C North, all contend that contract with the developed market economies is an important means of promoting economic development.

Haberler advances four main indirect benefits which help an upward and outward shift in production possibility curve and promote general economic growth: (a) by getting material means of development in the form of capital and other goods; (b) by access to technical knowledge, managerial and

entrepreneurial skills; (c) by stepping up the level of imports of capital goods, and (d) by influence of international keen competition.

Haring\textsuperscript{9} strongly and explicitly explains several patterns in an economy where a rise in exports, unfailingly, leads to increases in national output. An "increase in foreign demand will permit these industries to expand".


Emery's\textsuperscript{10} cross-sectional study, based on the regression analysis of 1953-63 data for fifty-countries, found a strong relation between

\begin{itemize}
  \item Haring, J.E : "Dynamic Trade Theory and Growth in Poor Countries". Kyklos F3, 1963 pp.371-391
\end{itemize}
average rates of growth of per capita real GNP of exports and of earnings of current account. His findings are that there is a most significant correlation (0.82) between growth rate of exports and that of gross national product and a country can increase its per capita real GNP by 1% for 2.5% increase in its exports or as a rule of thumb the countries ought to aim at 2.5 per cent expansion of exports to obtain one per cent expansion of per capita real GNP. The estimated equations obtained with the help of ordinary least square by Emery are:

\[
\begin{align*}
\text{Real GNP} & = 0.6630 + 0.32952 \times (X) \\
\text{(i)} & \quad (1.1557) \quad (0.3332) \\
\end{align*}
\]

\[R^2 = 0.67\]
\[n = 50\]

\[
\begin{align*}
\text{Real Per Capita GNP} & = 0.20 + 0.4096 \times (X) \\
\end{align*}
\]

where \(X\) is exports, \(n\) is the number of countries.

Emery concludes that "countries eager to increase their growth rates of GDP should adopt the type of policies that will stimulate exports."

Syron and Walsh\(^{11}\) divided Emery's sample of 50 countries into 'developed' and 'less developed countries' using $900 in 1964 as the demarcation line found the relation to be strong in

\(^{11}\) Syron, R.F & Walsh, B.M: 'The Relation of Exports and Economic Growth - A Note', Kyklos 3, 1968 pp. 541-545
both groups of countries. The stimulation provided by exports to domestic economy may be lower in the under-developed countries than in the developed countries due to the weakness in the under-developed countries of the institutional frame-work that transmit the incentives for induced growth. The sample of 50 countries was divided into two sub-samples: (i) consisting of 13 developed countries (ii) consisting of 35 under-developed countries. The estimated equations are as follows:

**Developed Countries:**
\[
\text{GNP} = (-0.1599 + 0.3718 X)
\]
\[
(0.3718) \quad (0.0448)
\]
\[
R^2 = 0.86 \quad N = 13
\]

**Less-Developed Countries:**
\[
\text{GNP} = 0.8128 + 0.3327 X
\]
\[
(0.3067) \quad (0.0447)
\]
\[
R^2 = 0.62 \quad N = 35
\]

**Total Sample:**
\[
\text{GNP} = 0.663 + 0.3295 X
\]
\[
(1.1557) \quad (0.0332)
\]
\[
R^2 = 0.67 \quad N = 50
\]
From these equations, it is clear that 1% rise in exports is associated with 0.37% rise in GNP in developed countries and 0.33% in less-developed countries. Further they have subdivided 35 less-developed countries in accordance with the proportion of 66% food-stuffs of total exports. These were:

Group-A: Countries with exports of food-stuffs 66% of total exports. This included 9 countries.

Group-B: Countries with exports of food-stuffs between 66% and 33% of total exports. This included 10 countries.

Group-C: Countries with food stuffs exports less than 33% of total exports. This included 16 countries.

The ordinary least square regression of GNP growth on exports growth was also applied to these three groups of less developed countries and found:

Less developed countries Group-A
Real GNP = 1.7534 - 0.1215 X
\( \begin{array}{l}
\text{(0.3768)} \\
\text{(0.1305)}
\end{array} \)
\( R^2 = 0.000 \)
\( N = 9 \)

Less-Developed Countries Group-B
Real GNP = 0.9655 - 0.2753 X
\( \begin{array}{l}
\text{(0.5225)} \\
\text{(0.0646)}
\end{array} \)
\( R^2 = 0.66 \)
\( N = 10 \)
Less-Developed Countries - Group C

\[
\text{Real GNP} = 0.4827 - 0.4123 \times X \\
(0.5017) \quad (0.0661)
\]

\[R^2 = 0.72 \]
\[N = 16\]

Thus the degree of dependence diminishes with rising percentage of food-stuffs exports in TWCs. This means that, if a country concentrates on exports other than food, the exports can create great effect on the growth of GNP.

In a twenty-country study for the period 1961-66, Stein found a strong relation between both exports and imports for growth. The correlation between imports and growth is slightly higher than between exports and growth but both correlation are significant at the 95 percent confidence level.

Massel, Pearson and Fitch undertook a cross-section study of eleven Latin American countries using pooled time-series and cross-section data over the twelve years 1955-66. The main finding of this study is that one per cent rise in export is

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associated with 0.44 per cent rise in gross national product (GNP).

The study undertaken by Maizels\textsuperscript{14} has related output-growth to export-growth for sixteen countries of sterling area. The estimated equation is

\[ Y_t = a + 0.55 \left( X_t \right) \quad R^2 = 0.47. \]

He concludes that the relation is not particularly strong; on the other hand, he finds a strong time-series relation between export and growth within countries as does Healey (1973) for eight countries in South East Asia over the period 1950-69: Burma, Ceylon, Indonesia, Korea, Malaysia, Taiwan, Phillipines and Thailand. The result shows that one per cent rise in export will be associated with 0.7% to 0.9% rise in GDP, for Malaysia 1.1% but in case of South Korea the GDP growth is only 0.1% of the export growth.

Voivodas\textsuperscript{15} depending upon Harrod-Domar models found the relation between exports and GDP growth for 22 LDCs over the


period 1956-67. In another paper concerned with the South Korean economy over the years 1955-70, Voivodas obtained the following results: Where

\[ \frac{dY}{Y} = 3.72 + 0.9 \frac{X}{Y} \]

\[ R^2 = 0.49 \]

Oyejide\(^\text{16}\) by using Ordinary Least Square method and extending the Keynesian, Harrod-Domar, and Chenery-Strout two-gap model, found that there is a positive and significant relation between growth rate of GDP and export as proportion of GDP.

Lubitz\(^\text{17}\) found that export as a whole (not the manufacturing exports alone) is a powerful variable with \( R^2 = 0.64 \) and highly significant.

Michaely's study\(^\text{18}\) of 41 LDCs for the period (1950-73) established quantitative relations between GNP and export. He finds both rates positively correlated to the extent of 0.380. His

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study is based on 1972 per capita income of $300 as the benchmark dividing the TWCs into more developed and less developed LDCs. His conclusion is that a correlation of 0.523 exists in the case of relatively rich counties, compared with a rank correlation of (-0.04) in the case of poor countries, which suggests that it seems likely that growth is affected by export performance only once, when a country achieves some minimum level of development.

The study made by Batchelor, Major and Morgan\textsuperscript{19} have established the impact of exports growth on income growth covering 116 countries, sub-divided into four clusters. It shows strong linkage between export-growth and income-growth in most advanced countries. The study confirms Massel, Pearson and Fitch results, but a stable relation between exports and income growth additional variables may also be added such as capital inflow, share of manufactured exports to total exports as explanatory variables.

Lee\textsuperscript{20} has extended Maizels analysis taking 28 countries of which 20 developing and 8 developed countries for a longer


\textsuperscript{20} Lee, J.K : 'Exports and the Propensity to Save in Less Developed Countries,' Economic Journal, June, 1971,pp 341-351.
time period (1950-67). Maizels results are further supported and Lee finds the co-efficient on $X$ substantially higher than on $(Y-X)$ for many countries.

Chenery and Eskstein (1970)\textsuperscript{21} Papanek (1973) and Landau (1966)\textsuperscript{22} all obtain similar results for different samples and different periods.

Balassa\textsuperscript{23} amassed considerable evidence to show that export performance is positively related to the degree of incentives assuming the growth of exports and changes in the ratio of exports to imports, and export industries which are generally more labour-intensive. Both the foreign exchange constraint and the saving constraint have been eased by export promotion and liberal foreign investments.

Balassa's another study covers eleven countries classified into four groups depending upon the post-war policies. In 1960-66 Korea, Singapore, Taiwan, Israel and Yugoslavia had highest

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marginal export-output ratio' associated with highest growth rate of manufacturing output.

The implication of Gershan's study\textsuperscript{24} is that social marginal productivities are higher in the export sector, and economies which shift resources into exports will gain more than inward-oriented economies.

In a seventy-three developing countries—including both (37) low-income and (36) middle-income market economies, excluding oil exporters for the period of 1960-78, Kavoussi\textsuperscript{25} found that (i) "even in a large and heterogeneous sample of developing countries higher rates of growth are associated with higher rates of exports growth" and for both the groups, low and middle income countries, export expansion is associated with better economic performance, (ii) Primary exports can play an important role in the growth process of both low and middle income countries, (iii) An important cause of positive correlation between the rates of exports and GNP is the rise in productivity which is likely to occur as a consequence of export expansion.


Rati Ram's study which is both cross-section as well as time-series for 88 countries for the period 1960-82 concludes that "the cross-section evidence (a) reinforces the time-series results about the importance of exports for the growth in most cases, (b) indicates the existence of a structural change from the 1960 to the 1970s".

The dynamic role of exports as a transmitter of growth, however, has been vehemently challenged by Buckley (1958), Easterbrook (1959), and Kravis (1970). The greatest success story of USA in 19th century has been challenged as it did not work for all periphery areas. It has produced what Nurkse has called "Lop-sided" pattern of development. It is no longer relevant, except for the oil-exporting and Newly Industrialised Countries. TWCs export markets are by no means assured. They further concluded that, on the pattern of Germany and post-1820 Canadian economy.


growth occurred as a consequence of internal factors other than exports. Through trade TWCs have been robbed off their craft and culture and the unregulated international trade has accentuated not diminished international inequalities.

TOT have a tendency to move against primary producers for which TWCs are characterised with. This evidence remains fully supported by Prebisch, Lewis and UN Secretariat for the period last quarter of the 19th and the first half of 20th centuries. The persistent downward trend in the TOT curtails the amount of foreign exchange at the disposal of the TWCs which reduces their capacity to import. It is pointed out that due to the internal and external obstacles, foreign sector has failed to have its full play on economic development of most of the developing countries.

Structuralists led by Prebisch\textsuperscript{30}, Singer\textsuperscript{31}, Myrdal\textsuperscript{32}, hold that international market structure perpetuates backwardness and dependencia in the TWCs. Prebisch the main partner of Prebisch-Singer-Myrdal thesis, maintains that the TWCs have actually been hurt by the expansion of trade and TOT(which despite the short-coming and uncertainties concerning their computation and


\textsuperscript{31} Singer, H.W: 'The Distribution of Gains between Investing and Borrowing Countries, American Economic Review (P&P), May, 1950, pp.473-495

\textsuperscript{32} Myrdal,G : 'An International Economy', Harper, 1956
interpretation, have been taken as an important and convenient indicator for the changes in the welfare of countries engaged in trade), have moved severally against the developing countries. There is little scope for the present day TWCs of reaping significant gains from trade as the TOT, if past trend is any indicator, are bound to move substantially against the future too.

However, the Marxist School takes an opposite view of the International Capitalist System, being monopolized and monitored by developed countries and operating to the detriment of TWCs. The terms of trade between advanced and developing countries are structured against the latter and in fact encouraged the TWCs to concentrate on backward forms of production which prevent development.

The views of Prebisch-Singer-Myrdal have by no means gone unchallenged both on theoretical and statistical inadequacies. From a theoretical point of view, it was repudiated by Haberler (1961), Flander (1964) Johnson (1967), Baldwin (1955), Ellsworth (1956), Meier (1958), Lipsey (1963), Streeten (1974), and Findlay (1980). They argue that the theoretical arguments in favour of the thesis are not sound and the empirical evidence produced is highly defective and inadequate and it fails to establish a trend against the developing countries. Hence no conclusion should be drawn
in general. On the contrary, they argue that developing countries TOT have not deteriorated rather improved because of quality changes and fall in transport costs.

Boeke\textsuperscript{33} argues that the growth of export sectors through foreign investment has created "dual economy" within the underdeveloped countries, the leading characteristic of which is that foreign sector remains isolated from the other sectors. In most of the TWCs there are market imperfections characterised by factor immobility, price rigidity, limited knowledge of market conditions. Errors and slippage in macro economic policy, over-valued exchange rates, exchange controls, poor quality of the product might be damaging exports and adding fuel to the vicious circles of foreign exchange shortages, controls and over-valued exchanges. All these imperfections become a big obstacle in achieving efficiency in the utilisation of scarce resources.

Besides this, violent export instability in export prices, quantum and earnings, which in turn, inflict serious damage upon the planned growth of these countries.

These short term fluctuations in foreign exchange earnings create balance of payment problems, which adversely affect producer's welfare.\textsuperscript{34}

However, the orthodoxy that export instability causes a range of adverse consequences also did not go unchallenged. On the basis of empirical studies, Caine (1954) Hirashman (1959), Michaely (1962) Knudsen and Parnes (1975) Yotopolous and Nugent (1976) and Lim\textsuperscript{35} (1980) have empirically found that exports instability has, rather, a positive effect on income growth measures and concluded that "the prior arguments on the detrimental effects of exports instability have been found to be incorrect", rather "we may expect higher aggregate savings ratios in countries with greater income instability". These findings were also challenged by Tan\textsuperscript{36} (1983) and Glezakos\textsuperscript{37} (1983). There is thus, no uniform pattern of conclusive evidence of the impact of export earnings in causing fluctuations in the domestic activity and inflicting significant damage on the process of economic development in developing countries.

Besides exports, another variable taken in the study is DFI. It is held that DFI may bridge the set of gaps that constrain development in the present developing countries: the balance of payment gap, resource gap, the saving gap, technological gap. Foreign capital is essential at least in the early stages of industrialisation and economic development.

Historical experience of Canada (1860-1910), New Zealand (1840-87), United States (1810-1890), Argentina (1900-1920), Australia (1860-1900), and Japan (1897-1906) shows that these countries had to depend upon foreign capital inflows for initiating and generating the process of their economic development. More recently, DFI have contributed significantly in the development of South Korea, Taiwan, Hong Kong, Singapore and lately Indonesia, Malaysia and China etc. Conflicting views have also been put forward by various economists both on theoretical and empirical grounds about the precise role of DFI in initiating and generating the process of overall economic development explaining many direct and indirect benefits.

The liberal school which emphasizes the positive role of MNCs, regards MNCs help in optimum use of the World’s productive resources and a ‘genuine vehicle of international co-operation’. This school considers DFI to bring to the host country the whole productive and organisational complex, embracing a bundle of production not merely capital and foreign
exchange, but also knowledge, managerial ability, technical personnel, technology, administrative organisation, marketing skills, and innovations in products and production techniques—all of which are in sheer short supply in majority of the TWCs\textsuperscript{38}. R.J. Ball\textsuperscript{39} and Chenery-Strout\textsuperscript{40} are of the opinion that a substantial increase in investment financed largely by foreign capital may lead to rapid growth of GNP. Rosentein-Rodan's "Big-Push Theory", Nurkse's "Balanced Growth Theory", Harvey Leibenstein's "Critical Minimum Efforts Hypothesis", Lewis (1954), Rostow (1965) Gerschenkron (1962), and Ranis and Fei (1961) hold that the impact of DFI on the growth of economy can be judged by their contribution to the mobilisation and allocation of all the three types of productive resources: (i) the supply of skills and organisational ability; (ii) the supply of domestic savings and (iii) the supply of imported commodities and services.

The studies by Kidron\textsuperscript{41}, Kurian\textsuperscript{42}, Meier\textsuperscript{43} and Deepak Lal\textsuperscript{44} support the positive role of DFI. The principal advantage of DFI

\textsuperscript{38} Meier, G. (1968) : op. cit. pp. 38-42.
\textsuperscript{39} Ball, R.J (1962) : op. cit. pp. 611-613.
\textsuperscript{40} Chenery, H.B& Strout, A (1966) :op. cit. pp.679-733.
\textsuperscript{41} Kidron, Michael : 'Foreign Investment in India' Oxford University Press, London 1965.
\textsuperscript{43} Meier, G (1968) : op. cit. pp. 38-42.
\textsuperscript{44} Deepak, Lal : 'Appraising Foreign Investment in Developing Countries', Heinaman, London, 1975.
is that they raise world output by moving managerial skills and capital from surplus areas to deficient areas of the TWCs and thus earn a high return.

DFI help to the extent that the marginal productivity of the other co-operative factors especially labour (whose Marginal productivity is near zero in labour-surplus TWCs) and capital, substantially goes up when they work with improved (foreign) technology and sophisticated managerial skill. This leads to an increase in real wages for workers and to an increase in the return to capital. The net effect is that the income generated exceeds the amount taken away by the investor in the form of profits. DFI push outward and upward production possibility curve:

The precise role of DFI in economic development, on empirical grounds tend to demonstrate that some developing countries with a higher rate of growth of DFI tend to enjoy higher rates of growth of national income.

Michael Kraska and Koji Taira\(^{45}\) support the view and found the correlation coefficient between DFI and the rate of growth GDP to be 0.66, which is highly significant. This indicates that economies looking for larger amounts of DFI tend to grow faster than those hosting smaller amount of such investment.

The study by Alamgir\textsuperscript{46} based on regression analysis covers the period 1959/60-1969/70, explains the impact of foreign capital inflow on national savings and growth in Bangladesh.

Based on cross-section analysis of 50 countries, Gupta\textsuperscript{47} found positive but not statistically significant relation between savings rate and capital imports. However, he was able to show that under certain conditions the inflows of foreign capital may actually intensify domestic savings.

On the basis of multiple regression, Chenery and Strout supported and concluded that foreign capital inflow has some positive effect on economic development in TWCs.

A study conducted by Papanek\textsuperscript{48} provides some quantitative evidence on the relationship between savings, foreign resources inflows and growth in TWCs and finds a positive relationship between growth, savings, foreign aid and DFI.

The dynamic role of DFI as a transmitter of growth, however, has been vehemently criticized and challenged. MNCs are being


depicted in some quarters not as a key instrument for maximising the world welfare but seen as dangerous agents of imperialism. This smacks of the worst type of Marxian-Cant 'international monopoly capitalism', is supported and elaborated by Bill.

Many examples can be quoted giving historical evidence when MNCs went deep into the political system directly and indirectly, fringing upon domestic policies, generating undesirable social and environmental conditions and conducted themselves in other-wise reprehensible fashion. Indeed, flagrant use of political muscle by foreign multinationals in their host countries was manifest in the overthrow of President Allende in Chile and in the downfall of Mr. Lumumba in the Belgian Congo, political upheaval in Guatemala in the early 1950s and Bedak revolt of Sumatra in Indonesia are testimonies of direct political involvement of MNCs in host country. Indirect political interventions were more subtle which created many times very peculiar situations. The negative role was played by the ITT (US multinational) not only in Chile, but in the countries of Latin America as well. In 1972, Ambassador to Jamaica, Vencent De Roulet threatened financial reprisal if nationalisation in the bauxite industries was put up as an issue in the Jamaican

The structuralist led by Barnet and Muller (1975), Mandel (1960, 1970), Murray (1971) Rowthorn (1971) etc. and Marxist economists Sweezy (1978, 1979) Magdoff (1969, 1978, 1979), Hymer (1972, 1978), Krosigk (1972) consider MNCs as a new form of imperialism, a developed and more suitable form of political imperialism. MNCs have no effect or even more likely, negative effects on the host countries, due to the fact the private foreign investors use inappropriate technologies, suppress local technological development, cause economic distortions in the economy, aggravate dual-economy, negate trade, collect excess profits, accentuate inequalities of income distributions, create balance of payments problems, corrupt the local elite, stand above the monetary system, reduce efficiency and hence stifle growth leaving behind poverty and misery. They do not bother about the legislation of the countries where they operate.

Secondary effects of DFIs are detrimental to domestic saving, capital formation, scientific research and development work in the host country. Marxist school emphasises the double role being played by DFIs and in both roles they have had important political implications. Marx and his followers have increasingly reflected a growing suspicion and greatest

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controversy over the DFI being viewed as a channel of exploitation of TWCs.

Griffin, Rahman, Weisskopf, Areskoug, Chenery and Eckstein have criticised the MNCs for their not having been effective in promoting growth, and have undesirable social and political consequences, and reduce domestic savings. Both Griffen and Houthakker suggest that there are limited investment opportunities in the recipient country, and that foreign capital inflows pre-empt these opportunities and induce-compensating decline in domestic savings.

Bauer argues that due to continuous and large amounts of foreign capital the valuable process of generating resources internally is foregone and the status and prestige of self-reliance are under-mined. It is also argued that the efficacy of foreign capital inflow in promoting development is reduced since the terms and conditions under which it is offered are often very harsh.

Vernon's study reveals that the process of dependent industrialization is likely to lead to premature, high levels of industrial concentration and early symptoms of stagnation in total output. Most of the technology supplied by the MNCs is capital-intensive, import-oriented and obsolete. Once the developing country gets foreign technology from the MNCs, there happens to be a vicious circle of technology, resulting into 'technological trap.' Moreover, MNCs generally undertake important research and development (R&D) activities in the home country and occasionally in the host country and TWCs have to pay heavy price for the import of technology which is generally tied-technology and create a technological gap in TWCs.

Barnet and Muller\textsuperscript{60} criticise the MNCs on the ground that the use of capital-intensive technology in agriculture, construction and some areas of manufacturing does destroy rather than create jobs. Dunn (1974)\textsuperscript{61}, Robinson (1976) Bornschier (1980) have supported and also explained the impact of MNCs in worsening of the inequalities of personal income as well as sectoral income distribution in TWCs.

According to Singer\textsuperscript{62} the stimulating income effects of such investments get lost through income leakages abroad, payments to foreign investors for profits and interests apart, the developing countries have to pay for importing capital goods, the demand for which is induced by the growth of exports.


\begin{footnotes}
\footnotetext{63. Hymer, S : 'The MNC and Uneven Development', in J.Bhagwati(ed) Economics and World Order, 1972}
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economic growth. Hymer's study\textsuperscript{63} supported by Bornschier\textsuperscript{64}, Koizumi and Kopecly\textsuperscript{65} reveals that "DFI made by MNC in the past did not, in general, go where the marginal rate of return in perfect markets was the highest but went to those industries which were oligopolistic in order to extract oligopoly rent for the investor who possessed special managerial and technical skill, not known or available to the local entrepreneur".

UNCTAD study\textsuperscript{66} of the technology transfer problem in Sri Lanka found that despite the payments incurred, the transfer of technology as a result of foreign participation had been marginal. In almost all cases there had been no effort to build local research and development capability.

The positive impact of DFIs on capital formation is also challenged empirically by Fernando Fajnzylber and Trinidad Martinez Tarrago in 1970 in Mexico, Newfarmer and

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Mueller\textsuperscript{67} in 1972 in Brazil, and by many more studies recently conducted in Latin America, reveal that MNCs do not bring enough capital to the TWCs.

Another study\textsuperscript{68} reveals that "In Peru and Columbia during the period 1958-67 more than one third of the DFIs by American firms involved the acquisition of local firms. This indicates that rather than bringing new capital existing capital merely changed hands with the arrival of MNCs. Outflows of the capital through high profits, debt service, exorbitant royalties, fees, disguising profits and evading taxes reduced investible funds.

Studies by ILO\textsuperscript{69} and Lim\textsuperscript{70} reveal that the relatively high capital-intensity, manufacturing industry-orientation and urban concentration of DFI in ESCAP region generated far smaller employment and paid higher wages than domestic investment. Balance of payment is affected by MNCs operations through various investments, transfer of technology, transfer pricing, foreign remittances in the form of royalties, fees, commission,

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dividends and travelling expenses in foreign currency.

Sanjay Lal and Paul Steeton's\textsuperscript{71} study shows that 145 (91 per cent) cases revealed negative balance of payment impact on the economy of the host countries.

Vaitsos\textsuperscript{72} has concluded that the transfer pricing practices used by the MNCs have caused the drain on foreign exchange resources of the host countries and making their balance of payments position worse.

The studies conducted by UN\textsuperscript{73} conclude that the balance of payment effects of MNCs in the ESCAP region remain inconclusive. In Sri Lanka, an average rate of return on investment was 43.8 percent and an average dividend pay-out rate was 38.1 percent. Another survey of 15 foreign financed firms found that the annual outflow was equal to two-thirds of their total foreign-held share capital. It further maintains that during the period 1968-70, 20 manufacturing firms accounted for

\textsuperscript{71} Streeten, P.P. & Sanjay Lal : 'Main Findings of, a Study of Private Foreign Investment in Selected Developing Countries, 1977, UNCTAD TD/ B/C-3/III


\textsuperscript{73} UN: 'Surveys Conducted by Development Planning Division', ESCAP, Economic Bulletin for Asia and Pacific Vol. 27 No. 2, 1976, pp. 73-89
an average annual foreign exchange outflow equivalent to 20.5 per cent of their total foreign investment components.

A UN study\(^7\) in 1978 revealed that the imports of MNCs outside the oil sector were 50 per cent higher than their exports. Total MNC employment stood in 1977 at about 3,80,000 or merely 0.75 per cent of the total labour force. Taking into account reports on displacement effects e.g. 50,000 workers lost their jobs in the areas of Malaysia, Java, as local textile factories were driven out of the market by the competition of MNCs. The net employment effect of MNCs may well by zero or even negative.

Voivodas\(^7\) discovered a high degree of over-pricing charged by the MNC’s working in Columbia: the weighted average of the excess price amounted to 40 per cent in the rubber industry; 25.5 per cent in the chemical industry; 16.60 per cent in the electronics industry; and 155.5 per cent in the pharmaceutical industry. No wonder such subsidiaries earned no profit and paid no taxes in Columbia\(^7\).

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Out of the nineteen foreign pharmaceutical enterprises studied in Chile, it was found that in six of them there was over-invoicing to the extent of less than 30 per cent, came to less than 30 per cent, in another three it was between 31 to 100 per cent and in the remaining ten it amounted to over 100 per cent. Over-pricing led to loss of foreign exchange of the order of over $47 million during the late 1960s.\footnote{Muller, R. & Morgenstern, R.D : 'MNC and Balance of Payment Impact in less Development Countries, An Econometric Analysis of Export Pricing Behaviour', Kyklos, Vol. 27, 1974, pp. 304-321.}

The foregoing studies remain inconclusive and do not discuss the role of exports and DFI on Industrialization and economic development in terms of GDP, per capita GDP, openness index, total exports and manufactured exports and the share in GDP; terms of trade, balance of payments, and employment effect. Most of the studies remain limited to short period and limited number of countries. Besides this, the issues concerning trade and DFI have not been discussed in the present context of international scenario of Structural Adjustment Programmes initiated by IMF and World Bank.