Multinational Corporations and Philippine National Development

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The current literature on development seems to be arriving towards a new consensus that development, in the context of the Third World countries, should be understood as a liberating process aimed at social justice, self-reliance and economic growth. Being a liberating process, it must therefore meet the basic needs of the masses of the people and must be inspired and carried out by the people themselves. This fosters the resurgence of self-strength which can serve as a profoundly transforming force which mere technocratic prescriptions cannot mobilize.

From this new approach, the question of how should local business and host government regard multinational corporations arises. A multinational corporation is an enterprise which controls assets—factories, mines, sales offices, and the like—in two or more countries. It exercises significant market control in some sectors of the economy. And it has a home base from which control or direction emanates. This home base derives a significant proportion of its total income from its overseas operations.

There are also some giant corporations engaged only in marketing, banking or trading activities. They are, strictly speaking, not multinational corporations. However, their impact in the world economy and particularly in the host countries is such that they are

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usually included in studies on the impact of multinational corporations in international relations. Their activities are thus encompassed in this study.

Spread of Multinationals in the Philippines

Governments of developing nations grappling with the problems of poverty, unemployment, and social and economic inequalities are naturally attracted by the package of resources and capabilities provided by multinational corporations—their huge finance capital, their technology, and their managerial and marketing skills. And the Philippines is no exception.

The Philippine policy has definitely been one of attracting foreign investments. And, although it was begun in 1967, with the enactment of the Investment Incentives Act, it was not until martial rule in 1972 that foreign investments started coming in fairly heavily.

Indeed, since martial rule, there has been a climate of increasing economic stability—at least in terms of legal framework, not necessarily in terms of employment and price levels—and an expansion of fiscal incentives, in spite of the combine effects of worldwide recession and inflation, and the quadrupling of oil prices. And the Philippine market, with a population of 44 million people, is fairly large. Its base of both skilled and unskilled labor, and its abundant natural resources are, in addition, favorable for production of both import substitution as well as export products. All these have served to expand the enclave structures of multinational corporations so that now, quite a large amount of foreign investments are well settled in the Philippines. And they are bound to increase, despite the expiration of the Laurel-Langley Agreement, the Vietnam "debacle", and the country's increasingly independent posture in foreign affairs.

The expectation is that these multinationals would significantly contribute to industrial progress. After all, they are the most effective and powerful carriers of "modernization". In addition, they have the most powerful collections of managerial and technical skills in the world. Thus, indeed at first blush, multinational companies could constitute a powerful engine for economic growth in less developed countries.

In fact, even the *Group of Eminent Persons,* commissioned by the Economic and Social Council of the UN to undertake a study on multinational corporations, has affirmed that multinational have distinct capabilities which can be put to the service of development.[1]

The resources of these multinationals are very impressive, indeed, that some of them even command sources of capital of a magnitude bigger than the equivalent of governments in many underdeveloped countries. The best known multinational corporations are finding it easier than most governments of the world to raise money. And their production growth rate has remained at near 12 percent a year level—far beyond that of the world's economy as a whole.[2]

Table I shows such corporations and the Philippines with the sales and gross national product, respectively, in billions of dollars.

TABLE I

The Fifty Largest Corporations in the World
(Sales Volume) and the Philippines (GNP)
1973-1974

Rank	Company	Headquarters	($ 000)
1	General Motors	Detroit	35,798,289
2	Exxon (Standard Oil of NJ)	New York	23,724,319
3	Ford Motor	Dearborn, Mich.	23,015,100
4	Royal Dutch (Shell Group)	London/The Hague	13,672,150
5	Chrysler	Detroit	11,774,372
6	General Electric	New York	11,575,300
7	Texaco	New York	11,406,876
8	Mobil Oil	New York	11,390,113
9	Unilever	London	11,009,559
10	Int'l. Business Machine	Armour, NY	10,003,242
11	Intl. Tel. & Tel. (ITT)	New York	10,138,035
12	PHILIPPINES	(GNP at current prices)*	9,508,000
13	Gulf Oil	Pittsburgh	8,417,000
14	Philips Glopilampenfabrieken	Netherlands	8,108,065
15	Standard Oil of Calif.	S. Francisco	7,761,835
16	British Petroleum	London	7,725,980
17	Nippon Steel	Tokyo	7,628,385
18	Western Electric	New York	7,037,290
19	US Steel	New York	6,412,056
20	Volkswagen	Wolfsburg, FDR	6,412,056
21	Hitachi	Tokyo	5,971,604
22	Westinghouse Electric	Pittsburgh	5,702,310
23	Farbwerke Hoeschst	Frankfurt	5,590,817
24	Daimler-Benz	Stuttgart	5,550,890
25	Toyota Motor	Japan	5,547,425

[1]*The Impact of Multinational Corporations on the Development Process and on International Relations,* UN Document E/5500/Add. I of 24 May 1974.

The COSOC, in December 1974, decided to establish an intergovernmental Commission on Transnational Corporations to assist the Council in dealing with the issues involved in the activities of transnational firms. *Times,* December 25, 1974, at 9.

[2]Arthur K. Watson, "The Logic of Economic Growth," *ICC News,* June-July 1969 p.

26	Siemens	Munich	5,522,688
27	Standard Oil (Ind.)	Chicago	5,415,976
28	BASF	Ludwigshafen, FDR	5,383,585
29	Imperial Chem. Industry	London	5,308,678
30	BI Dupont de Nemours	Wilmington, Del.	5,275,600
31	Mitsubishi Heavy Industries	Tokyo	5,226,713
32	Nestle	Vevey, Switz.	5,205,229
33	Gen. Telephone & Electronics	Stanford, Conn.	5,105,296
34	Shell Oil	Houston	4,883,808
35	Nissan Motor	Tokyo	4,883,494
36	Goodyear Tire & Rubber	Ohio	4,675,265
37	Renault	France	4,655,696
38	Bayer	Leverkusen, FDR	4,653,665
39	Montedison	Milan	4,452,335
40	Matsushita Electric Indl.	Osaka	4,409,465
41	British Steel	London	4,298,912
42	ENI	Rome	4,280,043
43	RCA	New York	4,246,800
44	August Thyssen-Hute	Duisburg, FDR	4,243,456
45	Continental Oil	Stanford, Conn.	4,224,004
46	Intl. Harvester	Chicago	4,192,544
47	AEG-Telefunken	Berlin	4,186,977
48	LTU	Dallas	4,177,057
49	Bethlehem Steel	Bethlehem, PA	4,137,633
50	Fiat	Turin	4,074,914

*₱71,314,000 million. See NEDA Statistical Yearbook, 1975.
Source: *Fortune,* August 1974, p. 192.

It will be seen from Table I that in 1974-75, the top multinationals of the world had sales volumes ranging from $10.14 billion to US$35.8 billion. Every single one of the eleven top corporations had sales volume in 1973-74 greater than the gross national product of the Republic of the Philippines.

Meanwhile, in the Philippines, the over-all financial operations of multinational corporations are over-whelming. The combined sales volume of 93 multinational corporations (in production) identified by *Business Day* accounted for ₱11.56 billion in 1974.[3] The significance of the combined income-generating capabilities of these multinationals in production can be better appreciated when we consider that their total sales is more than the total revenue of the national government from taxation in FY 1974, which amounted to ₱10.04 billion. In other words, the combined raising power of the 93 multinational corporations is greater than the capacity of the Philippine government to generate revenue from taxation.

The Long-run Impact on a Nation's Historical Development

The immense capabilities of multinational corporations in mobilizing capital, technology, and trading knowhow for given

[3]See Table I. Source of Material: *Fortune,* August 1974, at 192.

projects, beyond the capabilities and resources of poorer countries, cannot be gainsaid. Withal, in the end, one is led to the harsh conclusion that, inspite of the immediate usefulness of some multinational corporations for certain immediate objectives in the short run, the basic hallmark of multinationalism is the perpetuation of the historical mode of integration of social formations in less developed societies into the prevailing world economic system.

The traditional structure of inequality in the international division of labor is perpetuated further by these corporations through their penetration of the social formations in the less developed countries, with the latter's traditional process of internal structural deformations accentuated. Underdevelopment, in the long run, is thus, a reflection of the incorporation of the less developed societies into a world market dominated by the metropolitan industrialized countries. As pointed out in a study by Dieter Senghaas,[4] the less developed countries have become structurally dependent on the metropolitan countries.

There is a corollary effect to the integration of the economies of the less developed countries into the structure of the present world economic system. In the economic history of industrialized countries today, capitalist production had, since the time of industrial revolution, step by step, penetrated all economic sectors, including agriculture. In the less developed countries of today, on the other hand, there has been no comparable homogenization of economic societies. Instead, on the basis of a hierarchized order, and dependent upon the needs of the capitalist production within the most dynamic sectors of the economy, different modes of reproduction with differing development levels of productive forces exists.[5] The same can be said of the present gap between multinational firms oriented towards the international market on the one hand, and local industry and manufacture on the other.

A further dimension of structural heterogeneity has developed in industrial production for the internal market. Foreign capital dominates the dynamic branches for the production of durable consumer goods; at the same time, it occupies the production and capital goods sector which produces a part of the machinery required by the consumer goods sector. As the discussion on

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[4]Miguel Z. Patolot, "The Multinational's Contribution," *Business Days 1000 Top Corporations in the Philippines,* (1975), p. 190.

[5]"Multinational Corporations and the Third World: On the Problem of the Further Integration of Peripheries into the Given Structure of the International Economic System," XII, *Journal of Peace Research,* 1975, (NO. 4), p. 257.

"Control of Prime Sectors of the Economy" has shown, this sector of an internationalized production aimed at the internal market is quite highly monopolized; goods for higher consumption groups are produced contributing to increasing the gap in life styles between the rich and the poor in a developing society. There thus arises alongside enclaves of affluence among an elite measuring themselves by metropolitan standards, and poverty for the greater masses of the population.

Multinational corporations, by their very nature, have a life and ethos different from, and in many cases opposed to, the development objectives of social justice and human freedom. The primary motivations of multinational corporations remain to be global surplus accumulation and maximization of profits.

Parenthetically, because of the fact that multinational corporations are inherently inegalitarian in ethos, even in their own home base, they may tend to create gaps and poles of power and encourage the irresponsible use of power that would negate the national efforts to promote distributive justice among the groups and individuals.

Many political, economic and technocratic elites from the less developed countries have, nevertheless, decided to hitch their national wagons to the new locomotives of history which are seen to provide the instant resources to enable developing societies to make that quantum leap from their traditional primitive present to a modern technological future.

But in the end, these efforts may be self-defeating. Even when a positive decision to depend on multinational corporations decisively for a take-off to sustained growth shall have already been decided, the nagging doubts will remain. There are still social realities which are usually alien to the discussions of multinational corporations. There are internal forces alien to the technocratic prescriptions of multinational corporations which might indicate different directions for a people's long future.

Increasing Our Awareness of the Nature and Functions of Multinationals

The practical questions for a developing host country are, first, what countervailing institutions or power should be set up or harnessed to minimize the harmful impact of multinational corporations and, second, how the benefits from the presence of multinational corporations, which, although ultimately illusory, may be somewhat helpful in the short run.

The first task—that of setting up possible institutions of power, will be touched upon later. The second task—that of optimizing whatever beneficial effects the presence of multinational corporations may bring about—necessitates the increase, as in the past instance, of our awareness of the nature and functions of multinational corporations. On this, six guidelines are presented below.

First of all, there is need for an increased awareness and understanding of what they are and what they can bring to a nation because multinational corporations are not panaceas for development; they are, at best, facilitators. They are huge institutions that can shift money, resources and people from one continent to another.

Secondly, such increased awareness should be highlighted by the recognition that when we talk about multinationals we are talking essentially about power—economic and, perhaps, political and cultural—and its uses.

Thirdly, and most important of all, governments of developing countries should wake up from the naive idea that foreign investments and multinationals are there to help underdeveloped countries in their quest for economic growth. Primarily, they are here in quest of profits.[6] Professor Harry G. Johnson has rather put it bluntly when he said: "The corporation's concern in establishing branch operations in a particular developing economy is not to promote development of that economy according to any political conception of what development is, but to make satisfactory profits for its management and shareholders."[7]

Fourthly, the fact remains that whatever the net effects of multinational corporations on economic growth, they are not now known to help in the equitable distribution of wealth in society. On the contrary, they tend to accentuate rather than reduce inequalities within host countries in the absence of proper government policies.[8]

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[6]*Ibid.* at p. 266.

[7]According to a church-sponsored study in the U.S. (CIC Brief, An Examination of the Multinational Corporation), the average profitability on direct investment of U.S. companies between 1969-70 was 12.6 for all operations, 9.7 in developed countries, and 17.4 in the Third World, p. 36.

[8]"The Multinational Corporation as an Agency of Economic Development—Some Exploratory Observations," Feb. 1970 (mimeographed), cited in Buu Hoan, "Asia Needs a New Approach to the Multinationals," *Asian Finance,* July 1975, 39, 45-46.

Fifthly, there should also be an awareness on our part that there may be economic growth in a country in terms of gross domestic product and a number of industrial establishments, while participation of local management, technologists, engineers, and skilled workers may be highly limited. A country may have high economic growth, but if national participation is low, national aspirations and goals may not be satisfied.[9]

Finally, there should be a recognition that not all multinationals are alike in the conduct of their operations. Some are powerful and some are not, some impose on host governments while others do not; some have histories of undesirable business practices while some have clean records; some may be giants and others not quite so.

Increasing Our Bargaining Power: Formulating Development Strategies Encompassing Multinationals

The next logical step to take is for developing countries to consciously seek to increase their bargaining power vis-a-vis multinational corporations by setting up international and domestic institutions designed to curb or minimize multinational corporate dominance.

Multinational corporations have a wealth of information and intelligence at their fingertips, they are large and modern and have international horizons, and they know exactly what they want. A host country like the Philippines should be aware of her strengths and weaknesses and build a strategy on that. As a host country, we still hold the greatest weapon at our command—the veto.

The United Nations Declaration on the Establishment of a New International Order[10] and the Program of Action on the Establishment of a New International Order,[11] both of May 1, 1974, as well as the Charter of Economic Rights and Duties of States[12] of

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[9]See Cesar Virata, *op. cit.;* Jovito R. Salonga, *op. cit.*

[10]The point has been well presented by Dr. S.Y. Lee of Malaysia. He cites Chinese investment overseas—in East Africa, for instance—where they have declared the number of years within which they would entirely withdraw their engineers and technicians after training local people. On the other hand, Lee draws attention to the fact that there are countries in Southeast Asia, Thailand and Indonesia, where there is strong resentment of Japanese economic domination. The general complaint is that Japanese companies perpetuate their own personnel in managerial and technical positions. "Discussion," Multinational Corporations and their Implications for Southeast Asia, Institute of Southeast Asian Studies, Singapore (Feb. 1973), p. 116.

[11]G.A. res. 3201 (S-VI).

[12]G.A. Res. 3202 (S-VI).

December 12, 1974, express in very clear terms the right of every State to regulate foreign investments as it thinks fit, as well as the right to regulate the activities of multinational corporations which are under duty not to intervene in the internal affairs of host states.

There are many grave reasons for disagreeing with those who would anchor their economic salvation on multinational corporations. But if we have to live with them, we should strive to increase our bargaining power by formulating well-conceived flexible development strategies encompassing the supposed role of multinational enterprises and other foreign investments, both on a long-run and short-run basis. The following specific steps should be taken in devising flexible development strategies designed to optimize the various contributions which multinationals may offer:

(1) Refuse or allow entry only in certain fields conditioned on certain criteria, such as local participation in ownership and management, employment of local personnel, production of import substitutes, or export goals.

(2) Formulate a code of conduct for multinational companies so that both host country and multinational corporation can identify and agree on goals and priorities. The need for such code of conduct has been accepted and is being discussed in various for a today—in the UN, in the UNCTAD, in the ILO, in the Conference on Human Settlements, in the ASEAN, and even in the US Congress.

(3) Undertake, as a matter of policy, periodic reviews of all laws and regulations on foreign investments and multinationals, including any agreement, lease, concession, permit or authority issued by the Government in favor of any multinational, to make sure that its activities are in harmony with national policies. On this point, the Program of Action on the Establishment of a New International Economic Order urges as part of the effort to regulate and control the activities of multinational corporations, the review and revision of contracts previously concluded.

(4) Develop sufficient knowledge to control the impact of multinational corporations.

(5) Push vigorously economic collaboration in the ASEAN.

These last two strategies may be fruitfully undertaken, and are being undertaken by the Philippines, along the lines suggested below.

Increasing Our Bargaining Power: Acquiring Sufficient Knowledge to Control the Impact of Multinational Corporations

As part of our development strategy, it would be desirable for us to acquire sufficient knowledge to control the impact of multinational corporations.

There are two aspects of knowledge: The first one is a precondition to the second. The former has been best expressed by David Sycip, who points out that, ultimately, if the host countries want to make certain that they receive the benefits for assuming the costs of admitting multinationals into their country, they have to be more knowledgeable about business policies and they must have the political will, the integrity and the competence to enforce rules of conduct.[13]

The second is a corollary to the first. The host country should be able to develop the capacity to monitor the pattern of the distribution of benefits between us and the multinational corporations which operate here. We should not be simplistic and merely collect data; rather, we should undertake in-depth studies on the multinational corporations, their actual behavior and impact in precise terms, indicating their business practices, their relationship with other firms, domestic and foreign; their role in trade associations, their contact with other governments and their home governments, their profit and capital repatriation conduct, their impact on the industrial structure of the country—in size distribution, in industrial dispersal, etc.

In fact, one of the basic global trends of the 1970's is that many countries of the world which receive direct investment—Canada being the most notable example and with such exceptions as Singapore and Taiwan and possibly, South Korea and the Philippines, and lately the Andean Pact countries—are levying increasingly stringent requirements on foreign firms.

Increasing Our Bargaining Power: ASEAN Economic Cooperation

Finally, one way of increasing our bargaining power vis-a-vis the multinationals in our midst is to work towards increased economic cooperation among ASEAN countries. The more effective the economic integration that can take place among the member

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[13]G.A. Res. 3281 (XXIX).

countries of ASEAN, the greater can be their collective ability to present a countervailing force to some of the undesirable practices of multinational corporations such as transfer pricing, restrictive marketing practices, tax dodging, etc.[14]

Moreover, there are some other objectives which the ASEAN could contribute to the region. The ASEAN can be a major instrument for not only reforming the mechanisms of the existing international economic order, marked by inequalities in power and bargaining strength. It can, and will in fact, be a new instrumentality for supporting the aspiration of the overwhelming majority of mankind for a new international economic order.

The traditional pattern of world growth has produced affluence for a minority of peoples and poverty for a majority of mankind—a phenomenon which is sustained and accentuated by the existing international economic order. Thus, there are two contradictory forces, namely: (1) that of weaker nations seeking to replace the structure of dependent relationships that link then with industrial metropolitan countries, and (2) that of industrial nations defending these links in order to sustain the present types of dominance and affluence.

The ASEAN can play a significant role in the global struggle for the elimination of unequal economic relations in a world economic system that has increased inequalities and perpetuated the structural dependence of the peripheral economies on the center (metropolitan industrialized countries). The market mechanism in the world economy has meant for the peripheral economies the continued production of goods not really determined by the basic human needs in their communities but by the market demands of the central economies. What is needed, therefore, is for the peripheral economies to move progressively towards the use of instruments that are similar to planning mechanisms, not market mechanisms.

The ASEAN should be performing such role to foster economic self-reliance that will lead to an increase in bargaining power of the ASEAN members vis-a-vis the dominant industrialized countries.

Because the ASEAN will, necessarily, have to get involved in North-South dialogues, it should, even now, not only build up an economic staff but a serious technical and negotiating Secretariat calculated to strengthen its bargaining position.

There is another aspect to the development of the ASEAN. If it is really serious about economic integration, it will have to undertake

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14Fred Bergstan, "The Coming Investment Wars," *Insight,* November, 1974, p. 26.

some important innovations in its legal structures. There should be agreements on the question of jurisdiction and the application of foreign law, to the end that the legitimate expectations of the ASEAN business firms or member states may be protected; that parties can assume that the formalities of their contract shall be governed by the law of the place where it has been concluded; that the acquisition of property shall be governed by the law of the situs at the time of acquisition—in short, that vested rights shall be mutually respected.

Beyond this, there should be agreement on the setting up of standards for the presence of business firms and workers in the ASEAN members so that cases may either be decided under the same substantive rule, irrespective of the forum, because new contractual laws shall be superseding national laws. The latter phenomenon would, indeed, mark a quantum leap in ASEAN economic integration. It would promote the free movement of workers, capital and services among the ASEAN members.

Indeed, collective self-reliance is needed by small, weak and poor economies in an international economy characterized by domination and dependence. The economic integration of ASEAN will be one more step towards the achievement of a new international economic order. Moreover, an ASEAN economic bloc is not only desirable from an overall development sense; this is also desirable, as a goal, if we are to strengthen somewhat our bargaining position vis-a-vis the multinational corporations.