

MULTINATIONAL CORPORATIONS AND THE THIRD WORLD: BARGAINING POWER AND DEVELOPMENT

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Abstract

Several old and new issues concerning multinational corporations in development are reviewed, and placed in a general framework of bargaining with less developed countries. Many apparently contradictory findings about the costs and benefits of MNC involvement are seen to perhaps merely reflect different levels of MNC or LDC bargaining power in different contexts. Goals of the paper are to provide a systematic introduction to the literature while suggesting a framework for future theoretical and empirical research. Specific directions for this research are proposed.

Introduction: A Framework for Contrasting Issues and Perspectives

Over the last two decades the impact of multinational corporations (MNCs) on the economics of the third world has been one of the most controversial subjects in development economics. Observers such as Raymond Vernon (1977) have stressed the positive effects of technology transfer, employment creation, export market access, local resource development, and economic growth in general. Critics, many of them from less developed countries (LDCs) have countered that MNCs introduce "inappropriate" patterns of consumption; use inappropriately capital-intensive technologies, and thus perhaps cause unemployment; and in general foster a "dependent" relationship by retarding the development of third world productive capacity.

Studies of the impact of the MNC on economic development have drawn such disparate conclusions that it is hard to escape the feeling that most authors cannot be right. Part of the problem is that normative views creep into ostensibly positive research on the part of both advocates and critics (as well as authors striving for neutrality: positive and normative content is sometimes extremely difficult to separate). But from the point of view of analyzing the *behavior* of MNCs and their host governments, apparently conflicting observations may refer accurately to differing conditions. Economic theory and statistical analysis could then be brought to bear to determine conditions for significant favorable or adverse MNC effects.

As a step toward this goal, in this paper we place competing views of the impact of MNCs into a general framework in which the costs and benefits to LDCs and MNCs determine the government's attitude to the MNC, as well as the MNC's attitude to investing in a particular country. For logical consistency, we must assume that each party is at least as well off as it would be if it terminated the agreement. While in the case of outright colonialism this would not be an acceptable assumption, since decisions would not be made bilaterally, it is compatible with what is called "dependency," in which the institutional environment is deliberately designed so as to inflict maximum costs to any LDCs which break existing terms. So the framework is quite general.

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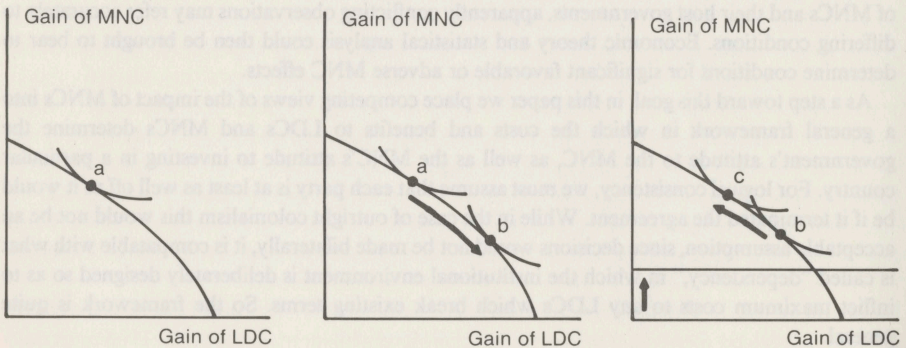
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To streamline the discussion, it will be helpful to introduce some terminology at this point.¹ When a bargaining party is at least as well off as it would be if the agreement were terminated, we say that each party is above its "threat point." Above this point, we will assume that distribution of the benefits to MNC or LDC will be determined by "relative bargaining power." Put a different way, assuming that both MSC and LDC (and any local business partners) receive net benefits of at least their minimum "threat point" level, benefits above these levels, however they are defined by the parties to the agreement, may or may not be divided equally or in proportion to their investment. Thus, in this framework, division according to relative bargaining power may or may not be the same as equal division or division according to equity shares or other contractual agreements.

While the net proceeds will be divided according to "relative bargaining power," the "threat point" indicates "absolute bargaining power," since it reflects the attractiveness of the next best alternative. For the MNC, the next best alternative will be defined by market, taxation, and other conditions in second choice countries. For the LDC, the next best alternative may be the terms offered by a rival MNC or the total cost to society of attempting to produce a substitute domestic product. Any change in the "threat point" levels at which a bargaining party would withdraw from the agreement will thus change the size of the "pie" to be bargained over.

Thus, the efforts of the bargaining parties to gain greater benefits will take the form of one of two types of strategy. A strategy based on absolute bargaining power would comprise an attempt to lower the other party's threat point, for example by undermining the chances of the other party striking an alternative deal (or raising your own threat point by developing better alternatives). A strategy based on relative bargaining power would be one oriented towards gaining a larger slice of the pie, the total size of which is already fixed by the threat point levels of the parties.

These ideas may be presented graphically as in the figures below. In Figure 1-a, a "utility possibilities frontier" is described which shows possible tradeoffs of benefits between LDC and MNC. The origin represents the threat points for each party, and the outcome labeled "a" reflects the parties' relative bargaining power. In Figure 1-b, we show the outcome resulting from a shift in relative bargaining power (in this case in favor of the LDC) and in Figure 1-c, we show the outcome resulting from a shift in absolute bargaining power (in this case in favor of the MNC, perhaps reflecting lower tax levels in an alternative country).



¹Some though not all of these terms will be used as in the formal literature on game theory. However, no acquaintance with this approach will be assumed. Some of the ideas in this paper, especially as pertain to joint ventures, are given a more precise game-theoretical formulation in Svejnar and Smith (1982, 1984).

Using this framework, it will be possible to see that rather than different views of the impact of the MNC necessarily contradicting each other, these different views may often merely be reflecting different assumptions about the level and changes of the relative and absolute bargaining power of LDCs and MNCs, respectively. We will briefly discuss the implications of this approach for five issues of contention: first, whether MNCs make "excessive profits," or otherwise "decapitalize" LDCs, a common, explicit argument; second, whether MNCs transfer "inappropriate" technologies and patterns of consumption; third, whether requirements that MNCs take the form of "joint ventures" with private or public LDC partners, which is the law in many LDCs, should be expected to improve the development impact of MNCs; fourth, what is the likely impact of MNCs on development planning; and fifth, what will be the likely effect of the third world "debt crisis" on MNCs.

This list is by no means intended to be inclusive; other issues, such as the effect of MNCs on labor relations and on patterns of consumption are of equal importance. Instead, the paper provides a framework for thinking about the various MNC effects on development. We close with a discussion of a strategy by which one might move from this theoretical framework to hypothesis testing, and to the quantification and determination of bargaining power.

I. The "Decapitalization Thesis": Taxation, Capital Mobility, and Transfer Prices

Do MNCs bring more money into the country than they take out? Some in the "dependency" school, critical of trade between developed and less developed countries as well as of MNC penetration, seem to consider their theoretical analysis (based on the labor theory of value) sufficient demonstration of MNCs' "decapitalizing" effects. Some proponents of MNCs as a positive force in economic development seem to consider this possibility so contrary to the conventional wisdom as to be unworthy of discussion. On the surface, this appears to be a straightforward enough issue to resolve. Why not simply go out and measure aggregate capital inflows and outflows through MNCs?

There are two types of problems with this. First, even if one could measure capital flows meaningfully over a period of time, it is not even clear that this would be a useful piece of information to have. Every firm invests with the expectation of making profits (or at least breaking even). That an MNC makes profits is not proof enough of its damaging effect on the economy. If the MNC is producing a product that would otherwise not be produced, or producing a product more cheaply, it may be adding to local economic welfare regardless of the profit it may be exporting. True, if capital is being exported, this would reduce the investment available for further growth. And the newly introduced produce may be "inappropriate," depending on how its external costs are valued (consider as an example the controversy in the UN over Nestlee infant formula). But if the product would have been imported anyway, this would have resulted in a drain on foreign exchange, which would have been unavailable for other imports, and despite some decapitalization MNC presence might produce a net benefit. Of course, things are never so simple, since infrastructure built to accommodate the MNC may also have to be imported. The point is that one should consider the full opportunity costs of expelling or admitting an MNC before concluding this is in the national interest.

Assume, however, that this difficult cost-benefit problem could in principle be resolved, using, for example, social accounting matrices and other development planning tools. Then one could determine the maximum level of profit, in a given industry, that an MNC could take home before the LDC would in fact be better off without it. Even then there would still be problems of measurement of capital inflow and outflow. Considering the problem of inflow first, findings by Raymond Vernon and others show that MNCs in fact bring only 20 to 25 percent of the capital

they invest from outside the country. The rest is raised domestically through one capital market or another. Further, studies show that a large percentage of MNC subsidiaries were not founded by MNCs but were in fact once domestic firms later acquired.

Measurement of capital outflow is, if anything, more difficult, and in all events more difficult to control. Gross profit figures may in fact be fairly poor measure of actual profitability to the MNC. If the MNC supplies inputs, such as managerial contracts, to its LDC affiliates, it may sometimes be able to change a price for these inputs at higher than marginal costs. This is more likely if the input is not traded on world markets, so that auditors may have considerable uncertainty about costs. Further, if the subsidiary sells its output back to the parent firm, it may do so at a price considerably below a "fair market value." This, too, would tend to understate local profits, but inflate profits for the parent company. Other things being equal, the profit maximizing MNC would wish to set these international accounting transfer prices so that profits were reported in the country with the lowest level of taxation.

Of course, in the real world of business, relative intangibles of motivation and monitoring frequency lead to other things not being equal. As Raymond Vernon has noted, the MNC must consider the demoralizing effect that consistently low reported profits would have on hard-working local management. On the other side, monitoring managerial effort becomes trickier (more costly). For them and other monitors (the LDC authorities, or economic researchers) what is needed is a practical method of adjusting for these accounting options in evaluating actual profit in relations to true opportunity costs of the relevant parties. This would again be difficult because parties may have a motive for keeping these costs secret, and many items, such as managerial consulting and intermediate inputs, are not traded on international markets. In the conclusion, a research program is outlined which could lead ultimately to great improvements over *ad hoc* methods used today.

Yet explicitly or implicitly, almost as a matter of definition, some method of determining true profitability is applied in the process of bargaining. In the section below on joint ventures, we argue that there will always be room for bargaining at various stages of the operation, even in the case of shared ownership and fairly detailed contracts. Given this, if observation alone would not suffice, it is easy to see theoretically that there will be room for ongoing bargaining with government over taxation, subsidy, pricing, employment, market sourcing, and a host of other issues in negotiations with wholly owned subsidiaries. This implies that total MNC profit, through whichever market or government source it is obtained and through whatever channels it is reinvested or repatriated, will reflect actual relative bargaining power. Researchers would require the cooperation of LDC governments to determine these levels (more on this below), but it would be of considerable significance to do so, since the determinants of bargaining power could then be sought statistically.

In the meantime, several researchers have attempted to shed light on the issues indirectly. The broadest study to date is that of Bornschier (1980) who in a 90-country study over 1965-1975 finds investment growth affected simultaneously in a negative way by the extent of MNC "penetration" in the economy, but, controlling for this, in a positive way by the level of MNC investment. Thus, the study superceded a number of others which stressed the positive effect on investment level alone, e.g., Vernon (1971). However, the bargaining approach suggests that a much more detailed analysis may be needed, since in principle one would expect that the bargaining power of LDCs would increase after the MNC had committed itself to plant and equipment, a marketing strategy, and so forth (the government becomes committed as well, for example to infrastructure, so the net outcome is unclear).

II. On "Appropriate Technologies"

No review of issues of the MNC and development would be complete without at least a brief mention of the "appropriate technology" controversy. MNCs have been criticized for transferring technology of an inappropriately capital-intensive nature to LDCs. Since MNCs undertake research and development in developed countries, where labor is relatively more scarce, technology is developed with a high capital/labor ration. This technology, it is argued, is then imported lock, stock and barrel, with few if any modifications to reflect the relative "abundance" of labor in LDCs. Evidence for this is not uniform, but it is certainly significant. (For a survey of this literature, see White (1978); Biersteker (1978) provides a path breaking statistical analysis of the Nigerian case, in which he finds the evidence differing according to industry. This latter piece is also notable for its schematic presentation of "matched" and "unmatched" alternative hypotheses of MNC behavior.) It should be noted that many LDCs have tax, tariff and labor policies which encourage inappropriately capital intensive production from domestic as well as international firms.

Theoretical research indicates that LDCs with higher bargaining power should be more able to induce MNCs to produce in a more labor-intensive manner provided technology is at least somewhat flexible. If "side payments" can be made, for example through tax concessions or subsidies, the LDC should be able to induce the desired capital intensity. In cases where side payments are not possible, government should be able to influence the MNC in the desired direction in proportion to relative bargaining power. (These results are derived in Svejnar and Smith, 1984, pp. 158-160.) This latter case would be one of the few circumstances in which relative bargaining power would affect "allocation" of resources as well as distribution of benefits.

III. Joint Ventures: What Difference Do They Make?

Though "nationalizations" of MNCs have received more publicity, laws requiring "indiginization" are actually far more common. Such laws typically restrict the degree of MNC ownership of an LDC company to 49%. Thus, they require the MNC to take on private or public business partners before opening operations. Many LDCs have believed (in effect) that joint ventures would lead to an increase in their relative bargaining power and hence, as the case is laid out below, to a lessening of transfer pricing abuse, more technology transfer and other benefits.

The Andean Pact countries' 1969 joint venture (JV) regulations gained considerable attention (Vagts, 1970), but ran into problems after the withdrawal of Chile from the agreement. Joint venture laws were in their heyday in the mid-1970s, when bargaining power of LDCs seemed on the rise. Four of the laws which attracted attention were those of India (1973), Mexico (1973), Malaysia (1975), and Nigeria (1977). India's Foreign Exchange Regulation Act placed a 40% ceiling on equity participation, setting a 26% Indian minimum participation even in five designated priority areas. Mexico's Law to Promote Mexican Investment and to Regulate Foreign Investment required majority Mexican investment in all foreign ventures, with the usual loopholes for high-priority investments (more on this later). Malaysia's Industrial Coordination Act required foreign firms to go through a complex licensing procedure, the goal of which was to bring 70% of the economy under the control of Malaysians by 1990. Nigeria's Enterprises Promotion Decree required divertment to 40% or 60% holdings, depending on the sector, and thus limited all future foreign investments to the joint venture form. However, to promote ownership diffusion, local ownership was limited to 5 percent, which helped to maintain MNC bargaining power despite their reduced equity position.

Many outside observers have tended to agree that JVs are a boon for LDCs. Vagts (1969, pg. 784), for example, declared that "such jointly controlled enterprises would respond more readily to national planning goals, seek to expand the local element of research and training and vigorously resist plant closings . . ." Streeten (1979, pg. 293) stresses that JVs provide LDCs "access to information and a role in decision-making; they would also include provisions for the divestment and gradual transfer of ownership and management from foreigners to the host country." His view is that JVs, especially with public sector participation, can be expected to "simultaneously harness private energy and initiative, yet are accountable to the public and carry out a social mandate." A further introduction to these issues is to be found in UNIDO (1971).

MNCs have been generally willing to work within the JV framework. An example of this attitude may be seen in an article by Armand Hammer, Chairman of Occidental Petroleum, who wrote that:²

We should be prepared to accept majority Mexican control of any joint United States-Mexico venture. The Occidental Petroleum Corporation's experience with our Mexicanized subsidiary, Iuimica Hooker, S.A., 51 percent of whose stock was sold to the Mexican public, has been profitable to the Mexicans and to us. We are now earning more with our 49 percent share than we did before the stock sale.

"Sharply limited" bargaining power has much to do with this willing attitude, since few business analysts fail to cite some drawbacks to the JV form. For example Dymsha (1972) warns that a) the MNC must "share control as well as profits . . . from the MNCs' expertise," b) the MNC may find that participating in a JV limits flexibility and planning in other operations as well and c) MNCs may have to dispute with their partners over "crucial managerial issues such as marketing programs, payment of dividends, reinvestment of earnings, exports to third countries, sources of materials and components, transfer pricing, management selection and remuneration, and extent of expansion." Dymsha contends that these issues can and do lead to "serious dissension" between the MNC and its LDC business partners.³

Of course the way to avoid "dissension" is to "sharply limit" your partners' bargaining power. Frank (1980) reports on a survey of 402 MNC partial or full subsidiaries in LDCs, in which one issue raised was how domestic equity participation could be made more "acceptable." He reports that (pg. 67):

A recurrent theme was the need to maintain management control over the subsidiary . . . (some) said that they prefer having many shareholders so the company's minority holding is, in fact, the controlling interest, or simply using a management contract. The desire for control pertains especially to production and quality, maintenance of trade names, and protection of patents and know how . . .

There is a large management literature on related topics: Gladwin and Walter (1980) is of considerable interest.

Since diffusion of domestic ownership strengthens the MNC's position, many LDCs, such as Nigeria, which have sought to spread domestic ownership for income distribution reasons, may

²*New York Times*, opinion-editorial page, January 5, 1981.

³Vernon (1971) presented a perspective on the transfer pricing controversy:

One result that host governments hope to achieve by insisting upon joint ventures is a less intimate, more arms-length relationship between parent and subsidiary. Various shred of data suggest that this objective considered by itself, is often achieved: parents in fact seem to deal with joint ventures on a less intimate and more formal basis than with wholly-owned subsidiaries . . . The implication of that statement, however, should be made very clear. Understandably, in the case of a joint venture, parents are much less disposed to transfer technology without payment or to sell intermediate products at preferential prices or to provide working funds without interest payments. The counterpart to this statement, to be sure, is that parents also feel less free, when their interests require, to draw funds away from the joint venture or to levy discriminatory prices on the joint venture in the sale of intermediate products. On balance, therefore, the outcome of relations between parent and the joint venture are somewhat more predictable than with the wholly-owned subsidiary . . . but are not necessarily more favorable.

have hurt their original purpose with these JV arrangements. Even if relative bargaining power is affected, there is only a limited range of gain before the MNC's threat point is reached and (unless LDCs are reaching joint agreements so that MNC threat points are being lowered) the MNC relocates. But before this "disagreement outcome" is reached, underestimation of the complexity of the bargaining process can leave one of the parties at a disadvantage, and explain why MNCs seem to operate successfully under radically different legal terms.

Resolving a complex process into a simple framework, there are two stages in which bargaining can occur (Svejnar and Smith, 1982, 1984). The first stage is the period in which negotiation over the formal contract takes place; the second stage spans the operation of the joint venture while the formal contract is in force. Some observers have contended that all major issues, including the distribution of net profit, can be resolved in what we are calling the first stage. Returning to Dymsha, we find the claim that contracts between the joint venture parties

can deal with possible conflict areas, such as election of the board of directors, management selection and remuneration, the determination of financial structure, payment for central administrative services, management and technology, and distribution of profits.

It is clear that there will be less room for bargaining in the "second stage" the more thoroughly joint venture contracts are spelled out in the first stage. However, "rational" parties would wish to leave some flexibility in the contracts they write. Though based on a study of union contracts, the analysis of Hall and Lilien (1979, p. 870) is of relevance here: "neither party to a collective-bargaining agreement has full knowledge of the economic circumstances that will prevail during the agreement. Both the demand for products and the opportunity cost of labor can change unexpectedly. Framers of agreements must anticipate the possible need to adjust the level of employment as supply and demand change." This will apply just as well to other intermediate inputs as well as outputs in the MNC subsidiary, whether wholly owned or a joint venture.

Thus, uncertainty about changing market and other conditions can not be fully removed and bargainers, be they joint venture partners or the government, will find flexibility of value. Bargaining will have to take place in the second stage, then, as well, since both prices and quantities need to be fully specified if an agreement is to be "efficient," from the point of view of the bargaining parties (Leontief, 1946). This has policy implications, since if the government or any of the other bargaining parties use different negotiators (who may have different negotiating skill or expertise) or negotiating methods in the second stage, it may be placing itself at a disadvantage.

Finally, an LDC may unexpectedly find its own threat point lowered. Recently, Mexico has announced that the enforcement of its JV law will be further relaxed. A newspaper account of this relaxation⁴ leaves one with the first impression that government regulation of MNCs must be extremely chaotic:

Mexico said today that it would allow majority foreign ownership for certain companies. The law generally required 51 percent of Mexican capital in foreign held subsidiaries . . . The government offered exceptions in 34 categories of industry, including farm machinery, food processing equipment, textile manufacturing equipment, highpowered motors and generators, large turbines and turbo-compressors, telecommunications, computers, pharmaceuticals, synthetic resins and plastics, photographic equipment, advanced biotechnology and motorcycles.

(Mexico's) new guidelines state flatly that the basic law "does not require modifications, since it already covers adequately the area of its regulation and at the same time gives flexibility to administrative authorities . . ." The problem is that you can be flexible one way today and another way tomorrow," one foreign analyst said . . . The government also announced today that it would permit additional foreign investment in existing enterprises if other sources of capital could not be found . . .

⁴*New York Times*, February 17, 1984.

period. The reason is simple: importing is about to become relatively more expensive. It is argued that MNCs are in a better position to forecast and carry out such plans because of their normally international scope of operations. Such speculation could largely negate the effect of a planned devaluation as well as generate extra profits for the MNC. Both management textbooks and left-of-center critics have explored variations on these possible manipulations.

It is worth noting that this in no way implies that domestic agents are incapable of speculation! The evidence from Latin America, in particular from Chile and Mexico, over the last decade suggests that domestic speculators can be just as damaging as MNCs. However, while it is difficult to prevent capital outflows, it is far easier to regulate capital inflows. What gives MNCs their edge on speculation may be less an informational advantage and less their superior ability to export capital as their ability to ensure capital inflow at the timing and quantities of their choosing.

We turn now to several aspects of micro level planning, popularly called industrial policy, where the outlook is unfortunately not much brighter. We turn first to the problem of tax incentives, which granted by a single LDC, could encourage greater MNC investment in desired industries. But looked at internationally, these incentives can become counter-productive in the aggregate in the same manner as protectionism. If tax breaks break out between countries the long run net effect may be little more than to reduce tax revenues for all countries. An LDC taxation level cartel could in principle reduce this problem, but there would always be an individual incentive to "cheat." All of this, by the way, assumes that correct industries could and would be targeted in the first place, an assumption that becomes proportionally harder to justify as the degree of uncertainty increases. None of this, however, seems to result in any trend toward offering less tax abatement.

Further, because of the use of "transfer pricing" on inputs and on outputs, the government may not be able to tax the MNC on the basis of ability to pay, their use of government services or infrastructure, or contribution to planning goals. (These are standard taxation criteria.) Legal limits to profit or ownership may not be binding if bargaining power is strong, as seen above.

All countries, LDCs included, become committed to infrastructure development programs requiring long-term amortization. However, the MNC operations they are designed for may be moved for reasons exogenous to the country. This makes efficient planning even more treacherous because the state of the world becomes difficult to foresee.

Related arguments may be made with respect to manpower planning, and other aspects of education and training programs. Although elaborate educational investment models are available, their value must unfortunately be challenged in a rapidly changing international economy. Countries which have done well in the new environment, especially those on the Asia Pacific Rim, seem to have concentrated on broad, general education, rather than specific training.

Another argument has been made with respect to antitrust policy: MNCs are typically larger than domestic firms and produce products for which LDCs may have few substitutes. Thus, LDCs may be vulnerable to price discrimination since they will have a lower price elasticity of demand. However, this is not the whole story, since MNCs may increase competition and reduce prices. An excellent summary of a large number of economic studies along these lines may be found in Caves (1982).

In a nutshell, the stronger the bargaining power of MNCs, individually or collectively, collusively or through "gray" markets, the more complicating their presence for development planning. Thus we may think of the MNC as a sort of rival planning agency, since its activities often cancel or reverse planning goals. Its large internal trade between divisions at internally set transfer prices may even be thought of as a form of horizontal central planning. But the practical

point is that despite the widespread concern with the economic power of MNCs, the practice of development planning has hardly adapted.⁵

V. On the Effect of the Debt Crisis on MNCs

Our last topic concerns the effects of the third world debt crisis on the role of MNCs. The greater the debt problems of the LDC, other things being equal, the lower their bargaining power with MNCs is likely to be. This is so because the more difficult it is for the LDC to obtain alternative financing for its development projects, for example in the form of loans from New York banks, the lower—by definition—the LDCs threat point in bargaining with MNCs over the terms of *direct* investment.

This, in fact, was tacitly admitted by the Mexican spokesman when he suggested that still further exceptions to limits on multinational involvement would be made if other sources of capital could not be found. Prior to the debt crisis, Mexico seemed to have an unlimited line of credit at the international banks. Today, Mexico finds credit much tighter, so its threat point is lower, and its willingness to play host to MNCs is greater.

However, the framework should also be able to warn us not to make blanket generalizations about the direct investment implications of this issue, of the sort which have typically been made about other issues in the past. For although the size of third world debt is large, it is by no means evenly distributed. (Mexico, Brazil, Venezuela, Argentina and Chile are among the top six.)

Recently, the International Monetary Fund has expanded its fund quotas for members, and this should result in a temporary respite. Barth and Pelzman (1984) argue that this credit expansion may well result in an avoidance of the fundamental difficulty of borrowing being out of proportion to productive capacity. If so, the "day of reckoning" may be all the more serious. Whether in the shorter term then, such as now appears to be the case with Mexico, or in the longer term, our framework implies that for selected countries with more serious debt problems, such as the five Latin American countries mentioned, MNC involvement may be expected to expand, barring unforeseen circumstances.

Conclusions: What Does This Imply for Policy?

In conclusion, LDCs find themselves between the proverbial horns of a dilemma when it comes to MNCs. The more an LDC needs MNCs, the greater the MNC "bargaining power," and the less good they may be induced to do for development (LDCs and MNCs have conflicting interests in many cases). But the less the LDC needs multinational firms, the less effect they will have on development, by definition. The only way to cut this Gordian knot, is for the countries which could most benefit from international direct investment to increase their bargaining power, while staying above the MNCs' threat points.

In general, LDCs' "absolute" bargaining power may be raised if LDCs have better options. Competitive bidding and/or simultaneous negotiations with several MNCs on a broad front of issues may help create the conditions for this. Absolute bargaining power may also be raised if the MNCs find themselves with fewer or less acceptable alternatives. A "host country cartel" such as that implied by the New International Economic Order program could help accomplish this in principle, but cartels are inherently unstable economic organizations (there is always an incentive

⁵The author is currently developing a game theoretical model of this problem. In a game theory approach to the analysis of development planning, not only does the effect of MNCs become clearer, but overaccumulation of foreign debt emerges not so much as a failure of development planning but as a strategic success. (Smith, 1984, forthcoming.) Again, the central issue is the relative and absolute bargaining power of the developing country, interpreted broadly.

to "cheat"). Common market policies such as those of the 1969 Andean Pact reveal similar strengths and weaknesses. (Similar arguments apply to the bargaining strategies of MNCs, since the analysis is symmetric.)

The determinants of relative bargaining power are more elusive, since it is *defined* as the share in net benefits' above threat points. What is needed is to determine shares in actual cases, then examine statistically which factors are associated with a larger LDC share.

Here again we come to the central problem of research on MNCs. Most of the fundamental issues require research on the applied microeconomics of the firm. But data at this level have until now not been available. Some company data is a matter of public record, and important company-wide data as well as results of executive surveys have been compiled by researchers such as Isaiah Frank, Raymond Vernon, and Thomas Biersteker. But to adequately test many of these competing hypotheses, and to determine the "true" bargaining power (again as distinct, e.g., from simple equity share), one needs financial data on a venture by venture basis.

Of course, some MNCs might be willing to cooperate with such a study, provided their identities were carefully concealed. However, participation is "costly," and we have an obvious "free rider problem," since published results would be available to all. Further, it seems unlikely that one could secure cooperation from the number and type of firms which would be needed to acquire a statistically meaningful sample for a given country or countries.

There is, fortunately, an alternative, namely to secure the research cooperation and support of LDC governments. In particular, several of the larger, middle-income Latin American countries and Asia Pacific Rim countries have a large scale MNC presence. Provided assurances of confidentiality could be adequately arranged, the considerable data collected as a matter of course by these countries' planning, tax and other authorities could provide real research mileage. These data, combined with "environmental" data on the policies and regional and other conditions of these countries could be analyzed econometrically (statistically) within the bargaining framework used here, to yield a wealth of information about bargaining power and its determinants. LDCs would have an enormous incentive to participate in such studies, since the informational gains should greatly outweigh costs of participation. As we have already argued, some of these data may be of questionable accuracy; thus, alternative sources of information such as returns of domestic partners and comparative international financial data should be examined. In any case, the results of such a broad study would help to identify indicators of potential data problems, alone of sufficient interest to conduct a study.

What are the determinants of bargaining power likely to be? Of course one would want to examine the range of microeconomic variables used in the analysis of imperfect competition and regulatory policy. But beyond these, among the places to begin seeking these determinants are in greater information, a greater ability or willingness to take risks in the bargaining process, a greater ability to withstand the consequences of a temporary impasse, and greater ability to ensure that policy decisions, however made, are capable of being carried out administratively.