MULTINATIONAL ENTERPRISES AND HOST NATION RESPONSE

by

Christopher T. Selvarajah

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ABSTRACT

Multinational enterprises (MNE's) and their subsidiaries operate in a vast number of countries, and many of them not in homogeneous countries. About 70 percent of the MNE's and their subsidiaries are found in industrialised or developed countries. Most of the MNE's found in developing countries are to be found in the processing of raw materials or the extraction industry. The international manager is likely to find government policy issues at variance with the MNE's policies in developing countries more than in developed countries. The countries that make up the developing world are not restricted to the poverty-stricken countries of the world. The wealthy oil producing countries like Brunei Darusalem, Saudi Arabia and Abu Dhabi and the four Asian 'tigers', Singapore, Taiwan, South Korea and Hong Kong, belongs to the class of newly industrialised countries, are all part of the developing world. This paper will consider, those arguments that favour and those that oppose the involvement of MNE's in host nations, the sources of MNE and host nation bargaining power, and the causes of power shift between the MNE and the host country. In the final part of this paper, issues the MNE has to consider, to maintain its continued presence in the host country will be discussed.

INTRODUCTION

The presence of the multinational enterprise is a profoundly significant aspect of contemporary reality in much of the world. Most countries have attempted to woo the MNE through many means, including official incentives for inward foreign investment, tax holdings, tariff protection, foreign exchange privileges and so on. However, the unprecedented growth of MNE's has become a source of concern. At times, conflicts have surfaced between MNE's and their host countries. In recent years, countries like Iran, Peru, Malaysia, New Guinea, France and Canada, among many others, have clashed with MNE's. Such conflicts have been extensively publicised by the media.

The friction between host nations and MNE's is the result of an adaptive process where the inherent complexities of the uninational society interacts with the multinational firm. In many developing countries, the adaptive process is seen as an interaction that favours the growth of MNE's more than the development of the host nation. However MNE's are
seen to be intimately involved in the development of the economies of these countries. A 'love-hate? relationship has often developed between the MNE and its host(s). On the other hand, the host country expects MNE’s to meet its various development needs, although any sort of involvement is often treated with suspicion. In fact, at various times, socialist inclined developing countries have openly ridiculed and publicly criticised MNEs' ‘interference’ as a plot of the capitalist nations.

This paper aims to provide some insight into the adaptive process between the host nation and the MNE. It is in the interest of the reader, as a practising or potential international business manager, to be able to identify the players, and their motives, in the adaptive process. This will help to understand potential conflict which may arise in a relationship between a host nation and an MNE.

OVERVIEW OF RELATIONSHIP BETWEEN HOST NATION AND MULTINATIONAL ENTERPRISES.

The case on the Fiji coup, at the end of the paper will give the reader an insight into the problems and prospects that a multinational enterprise can face in a host nation. The case in question refers to a number of issues that concern the multinational enterprise, when the stability of a nation is threatened. Fiji is a tourist destination and there is a large foreign investment in the tourist trade which is under threat. There are also other Australian and New Zealand business investments in Fiji.

There is widespread agreement today that the economic growth of developing countries depends upon their ability to attract skills and techniques which support the higher productivity levels of the industrialised nations. While foreign-aid programs can supplement capital formation in developing countries, the efficient use of foreign aid requires technical and administrative infrastructure. The catalysing effects of foreign capital inflow presuppose a base of local entrepreneurship which is absent in many of the recipient countries and severely limited in most.

The traditional carrier of the required industrial know-how has been foreign direct investment. The multinational enterprise which is the most popular vehicle of foreign direct investment has, in recent years, come under direct fire from critics at home and abroad. Nationalistic sentiments expressed by a desire for greater economic self-sufficiency frequently inhibit and restrain the operations of multinational firms. The growing animosity toward foreign investment is apparent in both developed and developing countries. This increased concern over foreign economic domination will be the most challenging problem facing multinational enterprises in the decades to follow.
In order to grow, multinational firms must be able to profitably develop foreign markets, and direct foreign investment is necessary if the less-developed countries are to achieve forecasted rates of economic growth. Increasing reliance on the multinational enterprise as an agent for promoting economic development is likely to exacerbate problems that have already appeared in the relations between the nation-state, as a powerful political entity, with a bordered geographical domain on the one hand and the multinational enterprise, as a powerful economic entity, with an unbordered world market domain on the other. These problems usually appear either as a conflict between the sovereignty of the host nation state and the economic liberty of the multinational enterprise, or as a conflict between the claims to sovereignty of the home or source nation of the investing multinational enterprise, and the host nation within whose borders the investment occurs.

Conflicts involve the overlapping of domains and the dispute of rival sovereignties inherent in this overlapping.

Although the developing countries are generally believed to be most critical of MNE’s and foreign investment, criticism of foreign investment is by no means limited to the developing countries. The developed countries are equally fearful of foreign domination. Some examples follow:

- While the Australian Government generally has viewed foreign investment favourably, there is sufficient anxiety over possible Japanese domination and some guidelines (reactive in many cases) have been issued on foreign investment. For example, the foreign investment policy on land and property in Australia was altered in 1987 to restrict foreign ownership of residential properties by foreign interest. 1989 may be the watershed year on foreign investment, not only in Australia but also in places like New Zealand and Hawaii where public reaction to Japanese investment in land and properties is coming under open public debate.

- In 1983, when the Malaysian multinational company, Multipurpose Group, bided for a successful takeover of Dunlop Plantation Berhad on the London Stock Exchange, the move was referred to as the ‘Malaysian Midnight raid’. The raid upset British investors. In response to this company acquisition, British regulations on foreign takeover of British companies was amended to avoid or expose sudden takeovers.
In 1968 the Royal Commission on Canadian Economic Prospects recommended that the size of foreign direct investment into Canada be controlled to preserve Canadian sovereignty of its resources. It recommended the 'Canadising' of the foreign owned subsidiaries. This included:

- appointing Canadians to their boards of directors and staffing key positions with Canadians;
- Canadians to hold a sizable minority equity stock in the foreign owned subsidiary;
- publishing financial data about their operations;
- purchasing from Canadian suppliers; and
- aggressively seeking foreign markets.

In the European Economic Community (EEC), like in Canada, fear of US business domination continues to smoulder. The EEC members are disquiet that (1) the US companies are raising a large amount of capital for investment within the EEC itself. (2) US companies are investing less and less of profits in their operations in the EEC. (3) American controlled assets in the Common Market is at a critically high level and there is fear in countries like France, Italy and Germany that their national corporate bodies might not withstand a 'foreign investment invasion'. All three countries have resorted to subsidies and preference in government purchasing to support their national firms.

All this goes to show that even the champions of free trade are not too enthusiastic about free enterprise when the going gets tough. Their attitude is that uncontrolled free enterprise is good for the developing countries, but is only good for developed countries as long as it does not hurt them. Is it any wonder then that developing countries have misgivings about direct foreign investment and its principal vehicle: the MNE? Whether justified or not, a defensive response on the part of a country generally increases as foreign investment grows in relative importance to its basic industries and establishes itself in the more sensitive areas of national life. For example, the concern about the level of Japanese investment in land and properties in Australia, especially in Queensland is reflected in some of the Australian Federal Government's foreign investment policy changes in recent years.

MNE's can also be a source of concern. Peko Wallsend's mining interest in Australia's Kakadu National Park is an example. The on-going debate between the Australian government and the Queensland State government illustrates the opposing interests of different parties in the explanation of returns from foreign investment. The Queensland State Government is supporting the mining interest
based on state interest and is opposed by the Australian Federal Government, claiming that the mining area in question is of national interest, to be untouched as a national park and is the heritage of the nation.

Another recent case that illustrates the concern of the type of foreign investment and the desired benefits to the economy is the proposed pulp mill at Wesley Vale in northern Tasmania. The State Government is desirous of the billion dollar project to boost badly needed economic development and employment but is being resisted by environmentalist, international opinion and now even the Tasmanian farming community who have traditionally been 'anti-greenies'. The main concern is the discharge of the chemical pollutant, dioxine into the environment and the ocean.

In Palmerston North, New Zealand a similar protest is currently under way. Here it is not the establishment of a processing plant but a school for Japanese students. The first intake has been about 240 students, Similar concern is being raised at the Gold Coast in Queensland where a piece of land, ten times the requirement for a normal school has been purchased at an inflated price for the purpose of building a school for Japanese students. If the public opinion cannot be contained, there has to be changes in public policy which may well be the case.

Many countries are making life hard for MNE’s they once welcomed with open arms. For example, IBM withdrew from India because India imposed strict regulations on parent company control of foreign subsidiaries in India. The Indian Government also required IBM to transfer technology. A decision, IBM undoubtfully currently regrets, given the huge market left open to potential competitors.

Time and time again, apparent harmony between the interests of the MNE and host-country governments has turned out to be merely a prelude to ultimate confrontation. Many MNE’s have experienced a developmental phase in the host nation environment where in the early days of operation they were given the controlling hand but as the business grew and prospered, the host government’s attitudes to MNE’s involvement also changed. Renegotiation of an original-contract is not uncommon. This happened in Papua New Guinea when the Bouganville Copper mining contract was renegotiated and the government and the people of Bouganville in Papua New Guinea received a larger share of the mining revenue. In the late 1970’s, an uneasy impasse existed between Exxon USA and the Malaysian Government concerning royalty payments on oil exploration revenue. Finally, a formula was determined which gave the Malaysian Government a greater share of the oil revenue.
The reason for this change of attitude by host nations has two explanations:

First, this usually happens when the MNE's start exploiting the resources required by the domestic firms and procuring market share of the domestic firms. Local interests will pressure the government to check the expansion of established foreign firms and to keep others out, to the detriment of the investment climate.

Second, when domestic and foreign firms are in direct competition. and the foreign firms are seen to have a greater growth rate, the spectre of 'foreign domination' is raised.

THE PERVADING PERCEPTION OF EXPLOITATION

The developing countries see themselves not as disadvantaged because of their own choosing, ability, or culture, but because they have been exploited over time under colonial or imperialist regimes. They were, and are, especially sensitive to the issue of neocolonialism, a term attributed to the late Kwame Nkrumah of Ghana. Nkrumah used the term to describe a national state that is, in theory, independent and has all the trapings of international sovereignty, but where its economic system, and thus its political system, are directed from the outside. Considering the economic dominance of Japan globally, it can be said that Japan had 'lost the battle but not the war'.

Since the MNE is seen as the principal vehicle of the said 'exploitation', it is small wonder then that MNE's have come under increasing criticism in the last two decades, and will continue to be abused in the future. In the field of business and economic development, while they may realise the necessity of foreign capital and technology, the rising young breed of intellectuals in developing countries intend to have these without foreign control and the loss of local autonomy that may accompany foreign market penetration.

WHY FOREIGN INVESTMENT IS 'TOLERATED'

Foreign ownership, by definition, will cause part of the wealth the firm creates within the country to flow abroad ultimately. The 'presumption' that corporate policies will be consistent with national economic interests is, less readily sustainable with a foreign-owned enterprise than with its domestic counterpart. Why, then, does a nation tolerate the inflow of private direct investment? It definitely is not to free international capital flows, even though the 'champions' of the free world may claim. The only reason that seem to reach academic credibility is that 'all things are not equal' and that foreign capital inflow helps make up the domestic deficiencies, which than mobilises the local resources while
the local workforce is trained to meet the challenges of industrialisation.

Thus, the continued presence of the MNE would be tolerated by the host nation if the following conditions are present:

1. if the particular technology, skills, and know-how, which the MNE introduces into the host country are unique to the MNE, not merely to the industry;
2. If these resources are critical to the efficient and effective operation of the MNE in the host country; and
3. if the initial MNE leadership position is not materially weakened.

With the growth of international trade and investment many nations, both the developing countries and developed countries, are becoming acutely aware of the intense competition of MNE's in promoting their products in local markets. Nationalism and, at times, political expediency has caused host governments, for example, the Malaysian Government in the early 1980's to promote slogans like 'Buy British Last' as an economic and political retaliation to British trade and investment policies.

CRITICISMS OF MULTINATIONAL ENTERPRISES

The power of MNE's over the economies of the countries in which they operate has multiplied vastly, and that this has not been in the total interests of these countries. One result, in hindsight quite predictable, has been the formation of cartels like the Organisation of Petroleum Exporting Countries (OPEC) and more recently the increasing number of commodity agreements to try and curb this power.

Some common criticisms of MNE's are that:

1. MNE's restrict or allocate markets among subsidiaries and that they do not allow local manufacturing subsidiaries to develop export markets. The markets are divided on a sectional basis which disallows manufacturing subsidiaries in one sector from developing markets in another sector. Well known products like Nestles have engaged in this strategy.
2. MNE's are able to extract excessive profits and fees because of their monopolistic advantages. Many MNE's because of their cost advantage have been able to stall the development of Substitutes thus gaining a monopolistic edge on newcomers and restricting their growth.
MNE's enter the market by taking over existing local firms rather than developing new productive investments. Our very own Australian and New Zealand MNEs have gained markets locally and internationally by takeover strategies.

MNE's have resorted to raising investment funds from local sources and, in many instances, at lower interest rates than in the parent country. Yet returns on investment are still being siphoned off to the parent company. This is a criticism that the EEC has of the U.S MNE's operating in the Common Market.

Commitment to MNE's has become total in many countries. Investment and employment in local productive investment projects and service to them are lagging behind MNE's in importance and status. This is especially the case in developing countries.

MNE's tend to centralise research and development efforts in the home country and operate on a licensing arrangement with host nations. This is a criticism that India has voiced over the years. As a consequence, the Indian Government has restricted MNE penetration in Indian markets. IBM and Coca-Cola are two examples of companies who had to leave India because of their reluctance to transfer technology and control to Indian subsidiaries.

Managerial and key technical positions in MNE's are held largely by expatriates. Many host countries have legislated against employment of expatriates except in positions where the host country lacks talent. China, at the moment, is critical of the presence of a large British expatriate workforce in Hong Kong where the locals could be effectively employed.

Developing countries have often complained that MNE's have used the developing countries to train expatriates for executive appointments internationally, thus neglecting the development of the local executive cadre.

MNE's affront a country's social customs or frustrate the objectives of a national plan. The formation of expatriate clubs and country clubs for MNE executives have often alienated expatriates from the local workforce to the detriment of labour relations. This is a sensitive issue in many developing countries and has been the target of overt criticism of MNE operations.

MNE's contribute to price inflation. MNE's tend to pay higher wages than the local companies thus causing a wage-price spiral in economies that can ill-afford this problem. There is often a pay differential between expatriate workforce and the locals. A third pay differential takes the form when nationals of a third country are employed.
MNE's dominate key industrial sectors. Industries such as mining are important in the development of nations yet it is these industries that attract foreign investment. By being in a position of control of such industries, MNE's have the advantage of being able to manipulate government policies.

MNE's answer to a foreign government. The US Anti-Trust laws control the operation of US MNE's who are, in turn, answerable under US laws. This loyalty to the parent nation is often disturbing to host nations. This issue of extraterritoriality has been a concern to the US based MNE's in their relationship with their government at home and the forces in the international market place.

MNE's keep profits in host countries artificially low through transfer pricing. Therefore, tax returns to the host country through the profit medium are understated.

MNE's ferment currency crisis through buying and selling currencies and transferring them between countries. New Zealand, in 1984, blamed MNE's for accelerating the economic crisis of the nation by speculating on the New Zealand dollar. Similar trends were observed in Australia in 1983. The Bank of Tokyo purchased about 400 million Australian dollars in late February 1989 when the dollar fell to about $A.80c compared to the US dollar from a high of $A.89c after the disclosure of poor balance of payment figures. This purchase advertently pushed the Australian dollar up two points. This has been the first time that a Japanese Bank has admitted being party to speculation.

MNE's cause a 'leakage of earnings' from the country apart from the apparent benefits to the foreign investor in the form of revenue and dividends. The host economy loses a great deal more on invisibles. An example is when MNE's in the hospitality industry, like international hotels, pay for imported food and services to satisfy foreign taste and fancy.

Another major concern is that MNE's answer to a multiplicity of governments located in many countries. Each government has only partial information on the total operation of the multinational enterprise. A single nation has control only over that portion of the MNE residing within its borders. The MNE has the advantage of a global intelligence regarding sources of supply, market conditions, etc., and bases its decision on this information. It can expand or withdraw. As has been noted earlier of IBM and Coca Cola withdrawing from India. The MNE can dictate to its subsidiaries what the role of each is to be, It can re-allocation resources from one subsidiary to another based on relative rates of profitability and risk. Unlike a purely national firm, it can resist the pressures of any single government by threatening to withdraw or by curtailing
activities. These characteristics of the MNE rankle host governments that may be attempting to shape the destiny of particular industries, and the firms therein, through an economic plan,

**SOURCES OF MULTINATIONAL ENTERPRISES BARGAINING POWER**

The key bargaining strength of a MNE is its ability to provide efficiently a technological package that the host country could not otherwise easily obtain. Scale of economics and product differentiation may also contribute to the MNE’s bargaining power,

**Technology**

The ability of a MNE to provide, under competitive conditions, products or services not easily obtainable from another source is the necessary foundation for any counteractive response. Put simply, a government has to deal on the MNE’s terms or look for costly and uncertain alternatives.

However, it should be recognised that few industries fulfill this condition. Unless a country wishes to become a major exporter to competitive markets, it need not necessarily go for the best and most sophisticated technology. In fact, many developing countries actually find relatively older technology more suitable to their needs. For example, even today India finds the sturdy, easy-to-maintain, 1950’s Mercedes Benz (renamed Tata Benz by its Indian Manufacturer, Tata Limited) trucks more suited to its road conditions and maintenance abilities than more modern vehicles. A first time visitor to India is without doubt surprised at the ‘time captured’ technology of the Indian automotive industry. The old Oxford cars of the early 1950’s model, renamed the ‘Ambassador’, are all that one sees on the Indian roads. They are still in production and are the best seller in India.

**Economies of scale**

The size of operation and experience curve effects is another source of MNE bargaining power. The MNE’s are able to produce at larger volumes because they have a world market and specialised plants in various countries. The higher the minimum efficient production scale in a given industry and the stronger the experience curve effect, the more difficult it is for host nations to set up their own domestic industries. But older production processes, ones that use more labour and less capital, may be less sensitive to these economies of scale, and thus more attractive to developing countries,
Product differentiation

Here, product differentiation means differentiation based on technology. Marketing based differentiation is of little value when bargaining. However, when differentiation is based on actual characteristics of product technology, for example, superior performance, then such differentiation may enhance the MNE's bargaining power.

SOURCES OF HOST GOVERNMENT BARGAINING POWER

The key bargaining strength of a host nation is its ability to control investment and the attractiveness of access to its national market,

Control of market access

Control of market access, depending on its degree of completeness, provides host governments the wherewithal to require MNE's to enter into joint venture arrangements, to place national representatives on their boards, participate in research and development (R&D), require equity participation, etc. For example, Spain was able to attract Ford's new motor vehicle plant to Valencia by letting Ford sell just enough cars in Spain to make it preferable to the company to establish its plant in Spain rather than expanding in Germany or the UK.

Inducements

Host nations may also attract MNE's by offering substantial support for R&D efforts. For example, ITT's European telecommunications equipment subsidiaries have received large research contracts and subsidies from host nations on the condition that they develop equipment well suited to local needs. Similarly, many developing countries provide incentives such as free trade zones and tax holidays to attract foreign investment. For example, Sri Lanka, in 1977, was able to attract foreign investment, especially from West Germany and Japan, by providing attractive incentives like tax holidays, cheap literate labour and free trade zone benefits among others. Sri Lanka is a good example of a nation that has had a 'on-and-off' or 'love-hate' relationship with foreign investment. It has gone the whole spectrum from a British colony to an independent democratic country, to a strong socialist nation, back to democracy and has more recently encountered internal terrorism emanating from a disaffected section of the population. How does the MNE react to this highly volatile environment?
SHIFT IN RELATIVE BARGAINING POWER

There has been a steady shift of bargaining power in favour of host nations. In some cases the shift has involved wholesale abrogation of mining rights and concessions, and confiscation of MNE assets in some oil producing countries, for example, Iran. Renegotiation of mining contract as that of the Bouganville Copper in Papua New Guinea and the profit sharing formula of Exxon in Malaysia are also examples of this shift in bargaining power to the host nations. There has also been divestiture forced on multinational banks in many African and South American countries, Some countries have resorted to nationalisation with either total or partial expropriation of the MNE assets. The Andean Group of countries have implemented a 'phase-out' program to reduce the domination of MNE's.

There are a number of other factors that have contributed to the change in the relative powers of MNE’s and host nations. Among the factor are (1) the growing competition for market share by MNE’s have permitted host nations to play one MNE against the other, (2) some developing countries like Singapore, Malaysia, South Korea and India are now starting to generate their own MNE’s. The Indian Oberoi chain of hotels is well established internationally including Australia. The Malaysian Genting Casino Group has the operating franchise for a number of casinos in Australia, including the proposed Sydney waterfront casino, (3), the success of some countries in getting more concessions from MNE’s has encouraged others to seek the same benefits. Libya’s renegotiation in 1970 of its oil concession agreements and the subsequent ripple effect throughout OPEC, is a relatively recent example of such success.

It should be noted that the countries that have been able to have a greater say in MNE participation in their economic environments have been nations, who during the downturn in the world economy in the 1970’s and the early 1980’s have generated economic growth of between 8 and 12 per cent from the export of manufactured products. A number of these nations have now moved up the \ladder\ to the ‘newly industrialised countries’ (NIC) category. Countries in this group include Singapore, Taiwan, South Korea Hong Kong and Brazil, with countries like Malaysia and Thailand making steady progress towards this category.

HOST COUNTRY RESPONSES

Nations have a number of broad policy choices with regard to multinational firms. One is to bar the affiliates of MNE’s and to' absorb what costs may be involved in the decision. That was Japan's choice in the early stages of its development; it comes close to being India’s choice today.
However, most countries are not prepared to take such a drastic step. The cost of the policy, especially in the short run, usually seems high, and the outcome uncertain. Sri Lanka, under its first Prime Minister, Mr. Bandaranayaka, nationalised all foreign investments in the country (then called Ceylon) in the mid-1950's and advocated a strong socialist political philosophy. The country stagnated until free trade was advocated in 1977 by Prime Minister Jayawardene.

Host countries vary in their responses to foreign investment. Much depends upon how dependent the country feels on the presence of the MNE. The relative bargaining positions of the two also play a big part. Some policies are designed to balance the distribution of income between nationals and foreigners. Other policies are motivated simply by overt nationalism. Although most policies have nationalistic overtones, they are not always inefficient. Some of the policies being adopted by host nations are:

1. Requiring that foreign firms share ownership with nationals.
2. Requiring that a specified proportion of key positions in executive ranks and on boards of directors be manned by nationals.
3. Removing foreign participation from technologically stagnant industries.
4. Placing ceiling rates on royalties and fees paid for technology (and in some instances disallowing foreign firms from collecting licensing fees from subsidiaries),
5. Renegotiating concession contracts in extractive industries to make them more favourable to local interests.
6. Insisting that foreign firms raise more of their debt financing outside of local capital markets and use the local market to raise equity capital. This ensures participation by nationals and facilitates the development of local financial institutions and markets.
7. Pressuring foreign firms to engage in wider scaled and more intensive training programs.
8. Continually increasing local content requirements. Pressuring foreign firms to develop export markets.

It is hoped that through such measures, not only will there be redistributive effects that favour nationals but also that foreign firms’ technological and managerial know-how will simultaneously become internalised within the country quickly and the country’s foreign exchange position
improved. Such policies serve the objectives of income redistribution and the desire to become less dependent upon the foreign presence.

DOMESTICATION OF MULTINATIONAL ENTERPRISE

In recent years, many host countries have taken steps to domesticate MNE's. Domestication is said to have taken place when the control of the operation in the MNE subsidiary located in the host country has been transferred to the locals and is operating in line with the local interest.

Domestication entails:

- a transfer of ownership in part or totally to nationals;
- the promotion of a large number of nationals to higher levels of management;
- greater decision-making powers resting with nationals;
- a greater number of products being produced locally rather than being imported for assembly; and
- specific export regulations designed to dictate participation in world markets.

Governments can force domestication through a variety of measures. They can resort to a national decree declaring that ownership must be passed to nationals, or they can be more subtle and suggest that greater local ownership will avoid unprofitable changes in import quotas and exchange rates. A government may also suggest that supplies and component parts be purchased locally. Government intervention at the domestic level is one of persuading the company to meet certain domestication demands in return for the continuance of special concessions, or the right to continue operations.

Domestication is preferred to expropriation because if a country nationalises a foreign business, the invested capital is captured but the expertise, the managerial know-how, and access to world markets is lost. Furthermore, once a country has shown a pattern of expropriation, foreign investment tends to dry up quickly, as was the case in Sri Lanka prior to 1977.
A country does pay a price when part of its industry is controlled from outside. The case ‘Fiji coup at the end of this paper is a good example of this. Its economic plans may be upset by foreign investors. It may lose tax revenues due to transfer pricing. It may face balance of payment crises, and such crises may be exacerbated by currency speculation by the MNE’s. And the MNE’s may upset an economy by pulling out altogether, But weighted against these costs of MNE activity are the benefits provided by foreign investment. By building plans and starting new industries, MNE’s increase output and expand tax revenues. They upgrade local labour and management, and they provide consumers with more efficiently made and better serviced products. Sadly, however, both MNE’s and host governments often fail to appreciate these potentialities. The country is either anxious to do too much; the foreign investor is too slow or is unwilling to cooperate or the country is cautious; the foreign investor is overzealous and keen to make fast market penetration. The MNE’s will gain acceptance only by demonstrating that they are making a net contribution to the economies of the host nations while the host nations have to provide a suitable environment for the MNEs to operate profitably.

One is however, likely to see host countries policy shift from being permissive to being increasingly restrictive. In priority sectors, policy will be permissive with incentives to induce entry. As the know-how and skills are acquired by nationals, there will be ever greater pressure to reduce the foreign presence. Thus, technology-rich foreign investors will share in the incentive schemes whereas foreign investors in mature industries will be pressured to share ownership or sell out to local interests entirely.

CASE

Coup in Fiji

After democracy the first casualty of Fiji’s military coup was likely to be the economy.

The coup could prove to be a severe setback for tourism, which employs more than 25,000 people in hotels and related services throughout the islands and is an important part of the economy.

More than 240,000 tourists arrived in Fiji in the year to May 1986, with one third coming from Australia, about 58,000 from the United States, 20,000 from New Zealand and about 12,000 each from Japan and Europe. Many of the hotels were, fully booked on the day of the coup. However immediately after the coup, led by Lieutenant-Colonel
Sitiveni Rabuka there were many vacancies. Some tourists had checked out and a plane-load of visitors was diverted to the neighbouring island Kingdom of Tonga.

The independent daily The Fiji Times reported that the leaders of the coup must consider the future of the country. It said they must reflect on the damage to investment, tourism and the economy, and questioned the future of a country that is ruled from the barrel of a gun. 'This idiocy will set the Fiji economy back 20 years', a British banker, was reported to have said. 'Investment is going to stop, tourism is going to stop, and what foreign investment there is here will leave. This is a disaster for Fiji.'

On other economic fronts, gold exploration - a thriving investment, is being conducted by joint ventures that have the expertise of a number of leading Australian gold producing companies, Geological surveys have found that a number of Fiji's 332 large and small islands, lying on the Pacific Ocean's so-called rim of fire, had potential volcanic gold deposits.

Much of the economic power in Fiji lies in the hands of the Indians, who represent a little more than half the population. Most are descendants of indentured labourers who were brought to the islands from India between 1879 and 1916 to work the sugar plantations. When the labour importation system was abolished, the Indians remained, in Suva many Indians, who supported the deposed ruling coalition, are frightened. Many have removed money from their bank accounts and fled the country.
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