Student name: Justin Holland
Thesis title: Developments in the Asian Pacific: Incentives for MNC Direct Investments abroad and the values issues they raise

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SCHOOL FOR SUMMER AND CONTINUING EDUCATION
UNDERGRADUATE LIBERAL STUDIES PROGRAM

The thesis of Justin Holland entitled Development In The Asian Pacific: Incentives For MNC Direct Investments Abroad And The Values Issues They Raise submitted in partial fulfillment of the requirements for the degree of Bachelor of Arts in Liberal Studies in the School for Summer and Continuing Education of Georgetown University has been read and approved.

Adhip Chandhuri (co) Mentor(s)

Dr. Phyllis O'Callaghan (co) Director, Liberal Studies Program

May 1, 1986 Date
Development In The Asian Pacific:
Incentives For MNC Direct Investments Abroad And
The Values Issues They Raise

A Thesis
submitted in partial fulfillment of the requirements for the
degree of
Bachelor of Arts in Liberal Studies

By

Justin Holland

School for Summer and Continuing Education
Georgetown University
Washington, D.C.
April 29, 1996
Abstract

The factors that influence multinational corporations (MNCs) to pursue direct foreign investments have evolved significantly over the last 30 years. But perhaps more significant has been the change in our perception of the economic issues that motivate nations to choose certain fiscal policies over others. Thus we have a clarified awareness of not only why countries like Malaysia, Korea, and Thailand are on varied trajectories toward development, but also why the leaders of these countries, and the MNCs that invest in them, have made industrialization a greater priority than improving the standard of living of citizens. An examination into the motives and nuances of direct foreign investment (DFI) in these countries reveals a certain pattern to the method by which MNCs attain various types of advantages, as well as how these advantages affect their policy-makers and citizens.

Some of the economic policy decisions advocated by these countries have come under criticism from individuals who charge that they fail to meet minimum basic human need (BHN) objectives. However, policy-makers tend to take a utilitarian, rather than an idealistic, approach to prioritizing the country's goals. For these leaders, sustained development (relative to the rest of the world) trumps the importance of being as competitive in "quality of life" indicators.
This thesis will examine the direct foreign investment (DFI) debate in three sections: *Foreign Investment Theory*, *Dunning’s Eclectic Paradigm: The Empirical Evidence*, and *Idealistic Values Issues* and will focus on three countries: Malaysia, Thailand and Korea, as well as on their larger trading groups: the Association of Southeast Asian Nations (ASEAN) and the Newly Industrialized Countries (NICs).

**Section I** will examine the “building blocks” of DFI theory—how the best aspects of several generally accepted economic theories have provided the basis for John Dunning’s theory. This section will investigate the methods with which countries and MNCs attain various types of DFI advantages; **Section II** will examine Dunning’s theory, noting how earlier theories come together in one that is backed by empirical evidence, evidence that will compare a variety of economic data stemming from these investment “advantages” by converting World Bank, International Monetary Fund (IMF), and subject-country statistical reports into a singular comprehensive analysis. Moreover, Section II will investigate the political and cultural issues that have influenced investment flows among the subject countries and others with comparable income levels. **Section 3** will define and seek to resolve the idealistic debate that adjoins corporate and state pursuit of DFI advantages by specifically addressing the concerns of the *Dependencia School*.

Although an examination into the theories and empirical evidence of DFI is quite common, an objective analysis of DFI issues through an idealistic “lens” is not.
This new perspective does not mean to suggest that the concerns of idealistic critics of DFI have been ignored; indeed the views of proponents of the Dependencia School are well known. Yet, the BHN concerns that have risen from the Dependencia School are perceived by some to be a direct result of rapid economic growth.

However, a few Asian countries have demonstrated that magnificent growth rates can be achieved concurrent to maintaining admirable BHN levels. Since the foreseeable future suggests that corporate and state policies will continue to reflect a preference for profit over social issues, it makes sense to attempt to stake-out a middle ground in this debate. The utilitarian notion of pursuing the “greater good,” should be compromised to comply with many moral concerns, as should the idealistic stance appreciate the motives which justify most DFI decisions. The subject countries of this thesis have reconciled these aims. MNCs in these countries have fueled the development responsible for critical tax income, and political leaders in turn is use the income to improve BHN standards.

By comparing the slightly varied approaches to balancing BHN and DFI objectives in Malaysia, Thailand, and Korea, other developing countries have a model approach to balancing industrialized development with BHN improvements. This assertion does not mean that Malaysia, Thailand, and Korea have completely avoided BHN criticisms, but compared to other countries in similar stages of development, these countries offer compelling evidence for mirroring their development strategy.
Preface

In order for the following economic terminology to be understandable to someone otherwise unfamiliar with the subject, it makes sense to first define various terms and acronyms that have been popularized by DFI experts, so that a singular “language” can be followed throughout this treatise. Since Dr. John Dunning has so nicely sewn-up the best elements of several accepted economic theories in his Eclectic Paradigm, it will be Dunning’s terminology that will be honored in the following pages.

It is generally agreed that the national economic development of a country does not concern a singular aim, but rather concerns a multifaceted and interdependent group of economic factors. Therefore, the advantages that different countries have in relation to one another, referred to as country specific advantages (CSAs), are more accurately examined as a group of interdependent, yet particular advantages. The three distinct phenomena that are a reflection of CSAs are referred to by John H. Dunning as either organization specific advantages (OSAs), internal specific advantages (ISAs), or location specific advantages (LSAs). Each of these advantages is like the “lodge poles” of a Native American’s tee pee: together these poles are the framework of the entire structure, and the poles are interdependent--removing one would jeopardize the stability of the entire structure.

Understanding the dynamics behind each of these factors of global economics requires a focused examination, but by way of introduction, it is fair to characterize OSAs
as those advantages that separate oligopolistic firms from would be entrants--a function of their ability to raise barriers to entry. The extent to which a country engages in international production and the industrial composition of that production depends first on the structure of its economic activities, and second, on the ability of its firms to generate OSAs which are best exploited by these same firms in foreign, rather than domestic, locations. Whereas, LSAs depict certain geographical regions as more favorable to multinational corporations (MNCs), and these advantages give rise to ISAs. ISAs are those factors that compel firms to pursue internalization strategies over licensing agreements, and therefore shift the geographic concentration of an enterprise toward various countries abroad.

Now, without further explanation, let us get underway.
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SECTION I
FOREIGN INVESTMENT THEORY

Chapter 1
The Building Blocks of a Comprehensive Direct Foreign Investment Theory

Vernon’s Product Cycle Theory

Vernon’s Product Cycle Theory (PCT) accomplishes two aims that merit some attention before examining the more particular nuances of DFI in the Asian Pacific. The PCT's first achievement concerns its resolution of the technology transfer question that is raised by the Leontief Paradox, while the theory's second success is a tidy (but nonetheless debated) explanation of the motivations behind MNC foreign investment decisions and the economic factors that influence them.

The essence of the PCT is that products move through a cycle. In the early stage of the cycle, a product is still being innovated and is therefore only produced on a small scale. It is usually custom-designed for the specific needs of an industry or business, and is consequently a labor-intensive product with a fairly elastic demand for income. In the second stage, which Vernon refers to as the growth stage, products are produced on a slightly larger scale and experience increased market penetration as production costs decrease. Lastly, in the third, mass production stage, the production of a product becomes capital-intensive and increasingly standardized. In this final stage a product's demand re-
lates positively to its relative esteem in the marketplace, i.e., the \textit{brand-name} preferences of consumers.

What does all of this mean? Vernon contends the PCT explains the United States' strength in \textit{early stage} production (read: innovative production), a point verified by the US' relatively high corporate R&D expenditures and relatively easily attained venture capital. Countries with traditionally cheap labor costs, on the other hand, attract those firms in the \textit{mass} production stage, given the standardized and labor-intensive nature of production for firms farther along in the product cycle.

How does Vernon's PCT effect DFI? By acknowledging the bearing of Vernon's aforementioned observations, one is likely to agree that the US is the most rational location for product innovation--given its high concentration of affluent consumers and its unique penchant as a source for venture capital. Still, as a given firm's product advances through Vernon's cycle, barriers to entry gained in home markets are sought in foreign markets. Exportation then, is a firm's next logical step toward increased profits.

It is at this stage that the product cycle is primed for DFI. The product has reached the stage in which consumers of the host country are targeted by foreign MNCs: Hondas are manufactured in say, Ohio, for dealerships and consumers along the US Mid-Atlantic states. In the final stage, foreign production (made possible by some of the best technological minds at MIT) is transferred back to consumers in Cambridge, Massachusetts who cannot wait to buy Sony's latest VCR. Vernon attributes DFI to exactly this
sort of technology transfer. Moreover, Vernon argues that DFI will remain consistent with the PCT as long high-productivity and low-wage conditions are relatively varied among countries, and they remain open to free-trade.

Hymar & Caves on Barriers to Entry

Stephen Hymar cites the barriers to entry (BTE) approach as that which is responsible for trends in DFI. For Hymar, the existence of BTE is sufficient to repel potential new entrants—particularly those supported by their governments. There are two sources of BTE: legal advantages (e.g., patents, trademarks, and copyrights), and barriers sustained by economies of scale. For instance, an MNC usually produces relatively large quantities at relatively low prices compared to a national firm, one that produces less at higher prices. The “deck is stacked against” national firms, hence MNCs choose to maintain BTE rather than engage in licensing agreements that would undermine their dominance in the market.

Dunning implements Hymar’s notion of BTE in his own Eclectic Paradigm Theory. Dunning views BTE as containing one criterion that influences MNCs in their investment decisions, a criterion that he refers to as ownership specific advantages (OSAs). Still, according to Dunning, Hymar’s BTE theory fails to address a phenomenon for which the Eclectic Paradigm Theory accounts. This condition pertains to internalization specific advantages (ISAs), Dunning’s second criteria for MNCs.
As Caves notes, firms naturally seek to lower transaction costs and maximize profits by circumventing the market whenever possible. In other words, firms often choose to vertically integrate (e.g., conduct transactions internally) because of unavoidable transaction costs in the market.

However both Hyman's and Caves' theories seem to "overlook" Dunning's assertion that a third criterion is relevant to DFI decisions: one that addresses location specific advantages (LSAs). These advantages are the national characteristics of the foreign market. Without LSAs, exports would supply the foreign market exclusively, thereby eliminating any incentive for MNCs to engage in DFI. Increased profits are available to firms that utilize some factor inputs abroad. Therefore, MNCs pursue DFI and LSAs.

Magee and the Problem of Appropriability

Magee's appropriability problem is the issue of how to derive profit from knowledge (as created by MNCs). This is a problem for primarily two reasons. First, knowledge is a durable good, one that, while not dwindled by either the use or effects of consumption, is limited in its effectiveness. Secondly, knowledge is a public good, one that eludes the deterioration often associated with our conventional notion of "durable." So, while there is no marginal cost to public goods, obviously there is a fiscal cost of providing say, a national defense. For Magee, this phenomenon illustrates the inherent inefficiency of the market for knowledge, and therefore proves that firms seeking to profit from knowl-
edge must circumvent the market for it. A firm bypassing the market for knowledge is a process based on its ability to establish *internalization specific advantages* (ISAs) (Dunning, *Explaining* 110).

Dunning offers a continuation of Magee's theory inasmuch as he cites two fundamental reasons why firms pursue ISAs. The first reason concerns a firm's tendency to seek economies of scale to the extent that such is profitable. The second reason concerns a firm's aim of deriving profits from acquiring firm-specific intangible assets, the formula for Coca-Cola's base-syrup, for instance.

Internalization is reasonable assuming it is less profitable for a firm to participate in imperfect and uncertain markets than to simply maintain possession of intangible assets.

Firms in industries prone to vertical integration, such as the aluminum industry, are likely to seek ISAs. For instance, it might be more profitable for an aluminum company to expand its mission to include the extraction of bauxite ore. This sort of vertical integration allows firms to avoid high transaction costs, such as those associated with refining and smelting aluminum.

Perhaps the earlier reference to Coca-Cola can help to make further sense of the complex role of ISAs. Coca-Cola Inc. chooses to distribute its syrup to its affiliates after the syrup has been manufactured in Atlanta, instead of licensing the production of the formula to various franchise holders around the world (this sort of arrangement would
benefit *Coke* for only a limited term). Although, by internalizing the formula advantage, *Coke* can hold-out indefinitely, until a day that perhaps may never arrive, one when *Pepsi* successfully duplicates the taste of *Coke*.

In the mean time, *Coca-Cola* is the market leader, and there is no end in sight for *Coke's* dominant position. The operative issue in both the aluminum and soft-drink example is firm control of ISAs. Dunning's view that the presence of ISAs be a prerequisite to any MNC DFI decision is reasonable since these advantages allow for the problem of appropriability to be overcome.

Understanding how OSAs, LSAs, and ISAs fall under the umbrella of CSAs, is achieved with a more in-depth look at Dunning Eclectic Paradigm.
SECTION II

DUNNING'S ECLECTIC PARADIGM:
THE EMPIRICAL EVIDENCE

Chapter 2
A Synthesis of CSAs, OSAs, ISAs, & LSAs

The three lodge poles or pillars of Dunning's Eclectic Paradigm (ISAs, LSAs, and OSAs) fall under the broader heading of country specific advantages (CSAs). Nations create these advantages by succeeding in differentiating economic policy from those offered in the home countries of the MNCs. Since economic factors affect different economies in several ways, each country has unique economic goals. It follows that certain countries (those that create CSAs) will lure MNCs away from their home countries. Therefore, those countries with CSAs relate (in the context of home country to host country) to OSAs, ISAs, and LSAs. Dunning notes that anything that generates advantages that "favor the particular characterization of developing countries, will aid their foreign investment" (Explaining 136). Likewise, "anything that does not favor these characteristics will inhibit it" (136).

A brief examination of how CSAs relate to each one of the advantage lodge poles helps to clarify the framework of Dunning's Eclectic Paradigm. First, however, it makes sense to underscore a few assumptions before undertaking such a complex examination.

Let us suppose that the CSAs apply to the home country of a given MNC, and
that the LSAs apply to the MNC's host country. Country-specific advantages link together with location-specific advantages in four particular ways (Chaudhuri):

1. Wage differentials. MNCs are attracted to the high labor productivity and/or low wage-rates of host countries. For example, Nike Inc. manufactures tennis shoes in NICs, such as Korea and Taiwan, instead of in Oregon.

2. Physical distance accounts for another link between CSAs and LSAs. In other words, as the distance of a country increases from an MNC's home country, so does the likelihood that the MNC will service that location through DFI as opposed to incurring inefficient shipping costs. An example of this would be a US MNC's choice to export goods to Canada and pursue DFI in Korea. Of course the opposite would be an equally logical possibility—a Canadian MNC exports to US and pursues DFI in Korea.

3. Psychic distance refers to cultural similarities or differences between countries. A high psychic distance country is prone to service through exports, whereas a low psychic distance country is a likely candidate for DFI. Using the aforementioned export scenario, say, goods from the US exported to Canadian and Korean consumers, Korea would be characterized as a high psychic distance whereas Canada would have a relatively low psychic distance. Note that this CSA/LSA link seems to contradict the preceding "physical distance" link. Still, the costs of transportation trump any psychic concerns.

4. The public policies of the home country offer the final link of CSAs to LSAs. In the European Union for instance, the MNCs that make their homes in member states enjoy tariff-free exportation within the EU. These firms, therefore, are inclined to choose
DFI locations among countries that fall outside the Union. After all, there are something like 350 million consumers in the EU, more than enough for large-scale MNCs exportation.

Although these four issues are key to gaining from DFI, different countries vary in their propensity to engage in DFI or be invested in. These differences are attributed to three primary phenomena: the level and structure of resource endowments; the size and character of markets; and the type of government economic policies toward DFI, innovation, and industrial concentration (Dunning, *Explaining* 128).

How a country measures-up in these different areas depends on the level of ownership it has in ISAs, and the extents to which foreign-based MNCs are attracted to the LSAs of the region. The more significant these advantages are, the greater the likelihood is that countries will achieve satisfactory levels of net outward investment (NOI).

There are several issues involved in a country's ability to attract foreign MNCs while creating an environment conducive to keeping their own firms. For instance, the size of the firm as it relates to the size of its home country's market. If a home market is small, a firm must invest elsewhere as it pursues growth through economies of scale.

Moreover, a country's natural resource endowment is a critical factor in attracting DFI. The uncertainty of natural resource supply flows is minimized through backward integration. Similarly, missed profits that result from price uncertainty are overcome by forward integration.
Government intervention plays another key role in attracting DFI. Japan’s government organization MITI has served as a leader in guiding a consortium of Japanese firms to jointly engage in research and development in say, HDTV, for the good of the country.

Lastly, the supply of skilled labor and the efficiency of financial markets are two huge influences in MNCs decisions to invest abroad. Making the transformation from primary product producers of search goods, to technologically intricate goods, begins with the process of educating a work force. Clearly this can not be done over night, but some countries, such as Malaysia, have intentionally embraced vertically integrated industries to create an environment of “cross trained” skilled labor. Lacking natural resources has not stopped Malaysia from gaining notoriety in the production of semiconductors, and the multitude of high-tech components on which conductors depend. Of course, a rise in skilled labor spurs a similar rise in income. So as the citizens of Malaysia have learned more, they have earned more, thus broadening their consumption for high-income goods. Clever management of the semiconductor industry has arguably been the catalyst for Malaysia’s rising credibility—and its ability to attract venture capital. The development of Malaysia has, in turn, led to more efficient financial markets. The dynamic chain-reaction of advantages that can accompany CSAs are fairly evident.

In summary it helps to examine Dunning’s “decision tree.” Dunning views the proper conditions for DFI as an MNC’s acquisition of OSAs (and assuming it has them it must want to keep them), in which case these OSAs become ISAs. At this point an MNC
addresses the location decision. If LSAs exist, the firm invests abroad. Hence, whether a
country is ripe for inward investment by foreign entities, is an issue that hinges on three
criteria:

• The extent to which (a country's) enterprises--relative to enterprises of
other nationalities--possess net ownership advantages;

• Whether it pays these enterprises to internalize these advantages or leave
them (through the market) for other enterprises to exploit.

• And, lastly, if it is profitable for enterprises to locate production facilities
at home or abroad. (Dunning, Explaining 133)

Still, the question remains: 'Why have certain less developed countries (LDCs) such as
Malaysia prospered, while others, such as India, not experienced similarly rapid growth?'
An examination of Dunning's empirical analysis of inward and outward investment flows
helps to further answer this question.

**Explaining Dunning’s J-Curve**

Dunnings “J-curve” is a graphed statistical analysis of GDP per capita and net
outward investment (NOI) per capita of 70 countries, each of which falls into one of
four foreign investment categories. Evidence shows that as the economies of these
countries advance through Dunning's four stages, they follow a predictable trajectory that
resembles the capital letter “J,” depending on their relative strengths in ISAs, LSAs,
OSAs, and CSAs. Where a country falls (i.e., in which of the four stages it lies and
whether it lies above or below the curve) depends on the aforementioned criteria covered in the beginning of this chapter.

The Stage 1 countries have negative but small NOI per capita levels and are characterized by low wage rates and low productivity. Not surprisingly, these countries often have dangerously high population growth (in the range of 3% to 3.5%) which lends itself to very poor infrastructure and very few middle class citizens (i.e., tiny market size). Also, these countries are without significant natural resources (which is all the difference in the world to some otherwise impoverished countries), therefore, MNCs service Stage 1 countries strictly through exportation.

Stage 2 countries have very low GOI, but have rising levels of GII because, while domestic production of search goods is moderate, experienced goods are manufactured by foreign organizations. Nonetheless, Stage 2 countries are bastions of cheap labor and contain pockets of high productivity. Moreover, the market size and efficiency of infrastructure among these nations is improving. Still, a very high percentage of the goods manufactured in these countries is consumed strictly by its citizens and not exported.

Dunning argues that the future NOI level of a Stage 2 country is based on the extent to which its “specific endowment, market, and environmental characteristics” are considered together or separately; and its ability to generate:

... ownership advantages for its enterprises relative to those generated by developing countries which are best exploited by (DFT), rather than by exports or contractual resource transfers. (Explaining 136)
Many countries presently considered in Stage 3 were Stage 2 countries just 10-20 years ago. The economies of these countries are characterized by further rising levels of GOI, but are known more particularly as net importers of large amounts of capital. These countries include the upper-tier Latin American countries, the Asian NICs (Korea, Singapore, Taiwan, and Hong Kong), the oil-exporting Arab countries, and the formerly Eastern-block Communist countries, as well as some of the lower European countries (Greece, Portugal). These countries attract high levels of DFI relative to outward investment, and therefore have high levels of GII.

Stage 4 countries have a highly specialized, inter-industry competition between domestic and foreign investment. For instance, oligopolies, such as the US auto industry, are comprised of domestic and foreign firms that each manufacture automobiles in the United States. The fierce competition and high costs associated with industries in Stage 4 countries serve to keep massive investment out. Domestic LSAs of Stage 4 countries are usually terrible, because, for instance, wages are too high relative to productivity. Staggeringly high GOI in Stage 4 countries means that regardless of GII levels, these countries have a positive NOI position. Accordingly, these countries do not enjoy LSAs as do many Stage 3 countries.

Dunning crystallizes grounds for NOI in developed countries, noting that it depends mostly on their relative economic status, and:

- on their ability to create and sustain technological and human capital advantages (which become exploited by their firms) and, on . . . the charac-
ter of the comparative advantage of their immobile resource endowments.

(Explaning 135)

The countries of this study, Korea, Malaysia, and Thailand have succeeded in improving their NOI per capita position over the last 20 years. Understanding the cultural and economic histories of these nations is an important step toward appreciating the statistical data that appears in the following tables, 2-1, 2-2, 2-3, and 2-4, as well as graphs 2-1 and 2-2.
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<th>Year</th>
<th>1974</th>
<th>1975</th>
<th>1976</th>
<th>1977</th>
</tr>
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</table>
| **Exchange Rate**
| FOR/US$ | 404.47 | 484.00 | 448.00 | 448.00 |
| Won/US$ | 2.41 | 2.39 | 2.39 | 2.54 |
| Ringgit/US$ | 20.38 | 20.38 | 20.40 | 20.40 |
| Baht/US$ | 2.46 | 2.46 | 2.46 | 2.46 |
| **Population (in millions)** | 34.69 | 40.78 | 41.87 | 42.96 |
| **Population Growth** | 1.70% | 3.01% | 2.75% | 1.70% |
| 4 yr. Avg. Pop. Growth | 2.15% | 2.67% | 1.62% | 2.60% |
| GDP Deflator (1990 = 100) | 15.70 | 53.50 | 41.80 | 19.70 |

### Asian Currencies

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<tr>
<td>1975</td>
<td>218,190</td>
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<td>1976</td>
<td>48,358,000</td>
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<tr>
<td>1977</td>
<td>1,394,004</td>
<td>3,668</td>
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<td><strong>1990 Prices (in millions)</strong></td>
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<td><strong>Per Capita</strong></td>
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### BOP

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<td>1977</td>
<td>0</td>
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<td><strong>Per Capita</strong></td>
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### U.S. Dollars
NOI 78-81

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<td>2.32</td>
<td>20.34</td>
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<tr>
<td>Won per US $</td>
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<td>13.45</td>
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<td>Ringgit per US $</td>
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<td>13.70</td>
<td>46.72</td>
<td>38.72</td>
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<tr>
<td>Baht per US $</td>
<td>607.43</td>
<td>2.18</td>
<td>20.48</td>
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<tr>
<td><strong>Population (in millions)</strong></td>
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<td>12.91</td>
<td>45.10</td>
<td>37.53</td>
</tr>
<tr>
<td><strong>Population Growth</strong></td>
<td>1.54%</td>
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<tr>
<td></td>
<td>Won per US $</td>
<td>Ringgit per US $</td>
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</tr>
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### Asian Currencies

**GDP**
- Current Prices (in millions): 54,443,000, 62,579, 842, 64,197,000, 69,941, 921, 73,605,000, 79,550, 988, 82,062,000, 77,547, 1,057
- Per Capita: 1,384,261, 4,313, 17, 1,608,544, 4,697, 19, 1,821,455, 5,210, 20, 2,010,831, 4,946, 20

**1990 Prices (in millions):**
- Per Capita: 2,164,505, 5,066, 23, 2,384,240, 5,245, 24, 2,576,417, 5,512, 25, 2,728,008, 5,313, 26

**1990 U.S. $'s (in millions):**

**Real GDP Growth (1990 $):** 0.00% 4.38% 5.34% 5.89% 6.10% 5.73% 6.74% 2.90% -0.94% -6.58% -8.92%

**4 yr. Avg. Growth (1990 $):** 2.4% 2.86% -0.11%

### U.S. Dollars

**BOP**
- GOI (in millions): -143, 0, -2, -126, 0, -1, -37, 0, -1, -34, 0, -1
- GII (in millions): 69, 1,397, 191, 69, 1,261, 350, 110, 797, 401, 234, 695, 163
- NOI (in millions): -76, 1,397, 189, -57, 1,261, 349, 73, 797, 400, 200, 695, 162
- Per Capita: 
- Per Capita: 3, -113, -5, -2, -95, -9, -3, -55, -10, -7, -48, -4
### NOI 86-89

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<td>2.58</td>
<td>26.30</td>
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<td>26.30</td>
<td>822.57</td>
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<td>Ringgit per US $</td>
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<td>26.30</td>
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<td>2.52</td>
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<tr>
<td>Baht per US $</td>
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<td>26.30</td>
<td>822.57</td>
<td>2.52</td>
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### Asian Currencies

#### GDP
- Current Prices (in millions)
  - 1990 Prices (in millions)
  - 1990 U.S. $s (in millions)
    - Per Capita:
    - Real GDP Growth (1990 $)

#### U.S. Dollars
- GOI (in millions)
- GII (in millions)
- NOI (in millions)
  - Per Capita:
  - NOI, 1990 $s (in millions)
    - Per Capita
### NOI 90-93

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<td>Ringgit per US $</td>
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<td>Baht per US $</td>
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<td>2.36%</td>
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<td><strong>Population (in millions)</strong></td>
<td>42.87</td>
<td>17.76</td>
<td>56.08</td>
<td>56.92</td>
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<tr>
<td><strong>Population Growth</strong></td>
<td>0.99%</td>
<td>2.36%</td>
<td>1.58%</td>
<td>0.99%</td>
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<td><strong>4 yr. Avg. Pop. Growth</strong></td>
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### Asian Currencies

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<tr>
<th>Currency</th>
<th>Current Prices (in millions)</th>
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<td>USD</td>
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<td>4,187,987</td>
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<tr>
<td>JPY</td>
<td>115,828</td>
<td>6,522</td>
</tr>
<tr>
<td>EUR</td>
<td>2,191</td>
<td>39</td>
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<tr>
<td>GBP</td>
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<tr>
<td>CAD</td>
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<td>7,126</td>
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<tr>
<td>AUD</td>
<td>2,506</td>
<td>44</td>
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<td>INR</td>
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<td>SGD</td>
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<tr>
<td>TWD</td>
<td>163,039</td>
<td>8,470</td>
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<tr>
<td><strong>1990 Prices (in millions)</strong></td>
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<td>4,187,987</td>
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<tr>
<td>JPY</td>
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<td>6,522</td>
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<td>TWD</td>
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<td>TWD</td>
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<td><strong>4 yr. Avg. Growth (1990 $)</strong></td>
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<td>9.90%</td>
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<td>JPY</td>
<td>13.16%</td>
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### U.S. Dollars

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<th>GII (in millions)</th>
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### Balance of Payments (BOP)

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### Notes

The table provides data on various economic indicators for the years 1990 to 1993, including exchange rates, population, GDP, and the balance of payments. The data is presented in US dollars and includes current prices, per capita figures, and real GDP growth rates.
Graph 2-2

J-Curve

![Graph showing J-Curve with data points for various countries.]

* Data has been derived from Table 1, World Bank Basic Indicators. Graph is drawn to scale and accentuates Stage 4, therefore, it does not resemble a "J"
Chapter 3
Understanding How a Global Economy Can Encourage Social Injustice

The Nature of the Market for Technology

The market for technology speaks to affiliations between MNCs and foreign entities and takes the form of either licensing arrangements, joint ventures, or wholly-owned subsidiaries (WOS). The WOS relationship implies complete ownership and therefore is an expensive method of transferring technology. Whereas, the cost of technology in licensing is limited to royalties (approximately 5%) and fees that are paid for the right to use patents, copyrights and trademarks. Courts consider fees any operational assistance such as consulting organizations in engineering and marketing issues (Chaudhuri).

This notion of "price" is determined by the price of intermediate inputs. So, by transferring to an affiliate, the Coca-Cola multinational can insist that its syrup come from Atlanta, and in so doing, control the price. An example of the same "transfer pricing problem" adversely affecting the under-privileged exists in the US. Pharmaceutical MNCs buoy prices by manufacturing bulk penicillin in the US for exportation to Colombia, where it is simply placed into capsules and sold to those who can afford it.

The price of the technology transfer market is also determined by "tie-in clauses" which, although illegal in some countries, provide LDCs monopoly-supply-rights from MNCs. These clauses are responsible for a large portion of the negotiation costs in international contracts (ibid). The counter-part to "tie-in" clauses are "tie-out clauses" which grant the original supplier the first right to again supply technology when its contract ex-
pires. For instance, if a Thai firm makes black and white televisions for Sony, it must give Sony the first opportunity to renew its contract. Unlike tie-in clauses, these provisions are usually legal (Chaudhuri).

Another popular clause attributing to the costs of transferring technology is “grant-back” provisions. When a buyer does any modification or improvement to the technology it receives, it would be compelled to share any such innovations with the seller, without charge. An example of this might be General Electric Inc. selling refrigerators to a Malaysian firm. If the Malaysian firm adapted the refrigerators to cope with humidity more reliably, and in turn, marketed the improved product to Vietnamese consumers, GE would be entitled to Malaysia’s product innovation. The ethical concern with “grant-back” clauses is that they allow oligopolies to maintain barriers to entry.

**Licensing vs. Wholly- Owned Subsidiaries:**
**The Dynamics of MNC Technology Transfers**

Market failures occur in MNC technology transfers to LDCs. These transfers lead to institutional licensing, joint ventures, or wholly-owned subsidiary contracts. Daniel Chudnovsky and Constantine Vaitos refer to these arrangements as unbundled or un-packaged transfers of technology that have been accepted unwittingly by LDCs.

Chudnovsky’s notion that LDCs are better-suited to purchase in the open market through licensing, than through wholly-owned subsidiaries, is justified by several economic tendencies (Chudnovsky 124). The first of these tendencies stems from the restrictive effects of MNCs internalizing WOS as explained previously by contractual
clauses like "tie-in," "tie-out," and "grant-back" clauses. By contrast, establishing licensing agreements with foreign entities is limited to royalties and fees. Hence, Chudnovsky argues that licensing is a cheaper method of making direct financial payments for technology than is the "invisible," lasting and repetitive costs inherent in WOS transfers (124).

Furthermore, licensing contracts tend to be for 10 years—a much shorter period than patent contracts which typically run for 17 years. Therefore, royalties are cheaper over the relatively short period of licensing contracts when compared to patent royalties. Also, licensing coverage tends to be more precisely defined and posses lower premiums than patent coverage (Chudnovsky 124).

Another point Chudnovsky makes is related to Vaitos' position and concerns the location of head offices and R & D expenditures. As a result of tax-rate differentials, tariffs, and restrictions on profit remittances, intra-country distributions of income from technology transfers have given rise to MNCs circumventing the tax policies of LDCs. Vaitos examines this concern further, comparing how MNCs acted when the tax rates between host and home countries were similar. The data shows that MNCs have had no a-priori preference to declare profits in any one country over another because all their centralized costs, such as R&D, are in the home-market where sales are insufficient to counter these costs (Vaitos 103).

Vaitos' postulate demonstrates that revenues from the domestic market are less than costs there. Therefore, MNCs are likely to siphon foreign profits to subsidize domestic operations because the difference between domestic revenues and domestic prof-
its can be made up with undeclared foreign profits (Chaudhuri). If an MNC believes in neutrality, then it will siphon even more, and pay to its country to minimize taxes. So, as the Dependencia School suggests, the assumption of non-national neutrality actually does encourage cheating on the host-country as much as possible.

The ethical implications of the Vaitsos argument are that in the product cycle theory, fixed costs get continually lower. So LDCs will pay twice—both when they pick up R&D costs for new products once they are introduced, and again when the subsidiaries or licensees pay royalties and other fee reflected in their price (Chaudhuri).

Also, LDCs sometimes pay for products they never use. This theory is based on simple after tax profit maximization, not an a priori discrimination. MNCs simply do not plan for their products to be consumed by all countries. Vaitsos’ theory runs counter to Magee’s contention that some countries have comparative advantages in R&D.

The US Internal Revenue Service loves the idea of subsidiaries paying US taxes in Vaitsos’ process. Despite the negative implications shouldered by LDC, the IRS employs dozens of experts to ensure that the transfer prices are in line, and that there is no underestimation by US MNCs. On the other hand, LDCs want losses to be shown in the US and taxes to be paid on profits made in their countries. So MNCs are being pulled in two directions, and the losers are usually LDC citizens.

The Notion of Appropriate Process/Product Technology
Another moral implication of MNCs “exploiting” LDCs has been examined by Helleiner in his argument on “appropriate technology transfers.” His position recognizes two concerns: the process by which MNCs are inflicting their technology on LDCs, and the effects that their products themselves have on LDCs (Chaudhuri).

In addressing the question, “Why do MNCs use inappropriate technology or make inappropriate products in LDCs,” Helleiner begins with an examination of whether or not MNCs from traditionally capital-abundant countries, use appropriate technology (e.g., the most cost-efficient technology) in labor abundant LDCs. The inquiry seems silly at first. Why would not MNCs take advantage of the favorable capital labor ratios in some LDCs? As Helleiner notes, profit maximizing MNCs stay competitive by always using the cheapest factor. So while MNCs will use the labor factor in LDCs if it is cheaper than the capital factor, usually capital-intensive technology bears greater profits (Chaudhuri).

Helleiner attributes MNCs use of inappropriate technology to two phenomena. The first concerns factor market distortions. One example of this is when host governments inflate the wage rate by meddling in MNC industries. For instance, these governments may justify interfering simply because an MNC is profiting from their natural resources. In return for awarding a contract, a host country might ask an MNC to pay exorbitant wage rates to family or friends of influential host-country officials. Also, the government might keep the price of capital artificially low. By keeping interest rates low, the
host government can improve its balance of payments deficit by attracting foreign currency for domestic goods and services.

A second factor contributing to MNCs inappropriate use of technology concerns the lack of production choices in certain products like steel that can be produced only one way. If an LDC's capital-labor ratio is fixed, as Magee also argues, a firm may adopt unique production methods that are difficult to reproduce. For instance, Coca-Cola plants are always the same regardless of the cheap labor in LDCs; the syrup is produced in the US and sent overseas (Chaudhuri).

The philosophical method of defining a product’s appropriability stems from a paternal attitude and contradicts the notion of consumer sovereignty. For Helleiner an appropriate product for LDCs is one that epitomizes the “essential characteristics” of a good rather than its inessential characteristics. Soap provides a good example: it need not look good or smell nice, it just needs to clean effectively. Advertising is the promotion of the non-essential characteristics of a good, and serves to price the average LDC citizen out of the market of essential goods (Chaudhuri). For instance, a teenage Thai boy whose diet is one step ahead of malnutrition, would be better served buying bread than a bottle of Coke. Helleiner questions the morality of consumers failing to maximize every dollar spent. Therefore, products that are fundamental to the health and well-being of people living below the poverty line, must be stripped-down to their essential characteristics.
The nature of the market for technology, and the notions for appropriate process and technology tie together the economic theory with several ethical issues, thereby laying a foundation for a closer look at the ethical aspects of development and investment.
SECTION III
THE IDEALISTIC VALUES ISSUES IN THE ASIAN PACIFIC

Chapter 4
Respecting Human Values In Development

The Social Costs of Attracting DFI: The Dependencia School

In the 1940s, as MNCs spread to foreign countries in search of natural resources and cheap labor, academics began to sit-up and take notice of dependency concerns. The notion of “dependency” stems from the idea that LDCs are integrated into a capitalistic world that dictates their economies’ composition and exacerbates development. Moreover, MNCs initially attracted to LDCs were exhibiting a propensity to leverage their bargaining position and exploit LDCs during contract negotiations. Dependency School proponents began to predict that, in time, LDCs would amount to nothing more than colonies of MNC host countries.

Proponents of the Dependencia School argue that the majority of humankind lives in a “state of extreme poverty and marginalization” (Cardoso 42). Perhaps most offensive to supporters of the Dependencia School is that today’s developing countries participate in a “0-sum game,” one in which success by one country necessarily entails a loss by another (Cardoso 42). Their chief criticism is that today’s global economy is not one of winners or losers, but one that requires a balance of divergent interests. An equi-
librium can be achieved through negotiations among political and corporate leaders, they argue.

Dependencia School supporters frequently voice three fundamental issues, which warn LDCs to avoid development contracts with MNCs:

• The expropriation of profits and knowledge, or "Brain-Drain," that MNCs often inflict on LDCs.

• The long-term effects of allowing a singular industry to grow to an extent that an LDC's product base loses all its diversity. Instead of the country's leaders being able to manipulate the economy through policy reform, they often became restrained by it.

• The influx of US culture that is offensive to many people of other cultures. A culture that largely ignores agriculture's role in combating poverty and suggests to the 'working person' that his country has 'sold him out' in its pursuit of industrialization (Cardoso 42).

From a political standpoint, the Dependencia School's proponents are concerned with improving democracy and with modernizing government. Specifically, political concerns include the promotion of human rights, cooperation among executive, legislative, and judiciary powers, the involvement of society's less fortunate in the decision-making process through dialogue with elected officials; and more importantly, the integration of women in social development (Cardoso 42). Their argument is grounded in the belief that LDC governments can make vast improvements in the aforementioned areas, by paying
more attention to the living standards of the majority of their citizens. It is possible for
these countries to 'grow' while meeting these aims, and also respect the social and envi-
ronmental implications of industrialization. The Dependencia movement seeks to educate
the common person, to familiarize him with the long-term ramifications of unchecked
growth—growth that cannot be sustained without social injustice and exorbitant extrac-
tion of natural resources (Cardoso 42). The Dependencia view is regarded by most classi-
cal economists as a somewhat extreme and unrealistic interpretation of demographic sta-
tistics, one that, regardless of its validity, concerns heads of state and not captains of in-
dustry (Vikinsins). However, research suggests that many Dependencia criticisms are in-
deed valid. Unfortunately, neither side of the debate can agree on whether moral ac-
countability lies with MNC, or home-country presidents.

Irrespective of whether the Dependencia School is "good" or "bad" it makes
sense to become familiar with the cultural and ethic nuances of the Asian Pacific. Once
these qualitative factors become clear, the quantitative factors can be examined in the
proper context. It is the position of this thesis that Dependencia concerns can be met
concurrent to GDP growth, and this assertion will be borne out of the quantitative data
provided in chapter 6.
Chapter 5
The Less Tangible Social Ramifications of DFI

A close look at the cultural and ethnic aspects indicative of the Asian Pacific countries uncovers several interesting details that help to interpret the social ramifications of DFI that do not turn-up in the statistical data. Furthermore, these nuances of the Asian culture provide a nice back-drop to understanding what the future might hold for the ASEAN and NICs.

National Unity
The traditional society view that has been embraced by neo-classical economists holds that there are five characteristics of LDCs. We have discussed the demographical issues or Basic Human Needs (BHN), however another area of concern is national leadership. Traditionally the leaders of LDCs have been forgotten by history—we remember leaders such as Ghandi and Mao but we are largely unfamiliar with the leaders of less developed countries. As much as half of Asia's leaders have been an absolute disaster for their countries. Former Philippines president, Marcos, is one of many Asian leaders who engaged in kleptocracy, whereas others, such as Pol Pot, egotistically experimented with their country's economy—essentially stealing them blind.

Given the infrequency of virtuous leadership in Asia, it is not surprising that a sense of 'national unity' has been scarce. Asian LDCs are culturally and ethnically diverse. Such diversity has given rise to ethnic conflicts such as those that occurred in Sri Lanka.
and Malaysia. And while Malaysia’s race riots of 1969 marked a low point for the country, ethnic strife surrounding the prevalence of Buddhism in Malaysia and Indonesia has given rise to religious differences that remain quite problematic (Viknsins).

Another illustration of Malaysia still struggling with its diversity can be found in the New Economic Policy or Bumiputraziation. This policy is essentially an affirmative action policy by which the Bumiputrase sect of Chinese in Malaysia are entitled to preferential hiring treatment (Viknsins). It is easy to understand how policies like Malaysia’s Bumiputraziation might cause unrest in an already diverse country. Notwithstanding, it makes sense to consider another facet of national unity, a controversy that centers on Asia’s Subregional Economic Zones.

In several strategic locations in Asia, common geographical and cultural ties have manifested into a phenomena that has been summarized by Chia Siow Yue and Lee Taso Yuan in their article Subregional Economic Zones: A New Motive Force in Asia-Pacific Development. This piece examines trends in investment and trade-flows, in general, and the emergence of Subregional Economic Zones (SREZs) in particular. SREZs are indicative of Dunning’s LSAs, and are characterized as increasingly attractive manufacturing and export platforms in the Asia-Pacific (Yue 264). These economic factors between countries serve as LSAs inasmuch as they link together businesses that embrace their roots. For instance, “most of the Chinese population in Hong Kong and Taiwan can trace their roots to Guangdong and Fujian provinces, respectively” (252).
The shared Chinese heritage of these merchants helps to explain why favorable transaction and information costs are enjoyed by local businesses in these economies (Viknsins). Interestingly, such ethnic ties are consistent with a complex and loyal "network" of Chinese business people throughout Southeast Asia (Yue 252). Still, the increased disparity between developmental trends and the general standard of living for the vast majority of citizens in the Guangdong and Fujian provinces have prompted many to voice concern about the effects of SREZs (Yue 252).

Critics outside the region also charge that these export platforms are plagued by political, distribution, and social conflicts. Indeed, the issue of 'whose national identity will prevail' seems inherent to SREZs. For instance, in some quarters of Malaysia and Indonesia "there are already indications of unhappiness over the perception that [a few SREZ] areas . . . are coming under the influence of Singapore" (Yue 266). Still, supporters of SREZs argue that these concerns are expected 'side-effects,' and are unavoidable since such regions encompass various parts of different countries. For supporters, the prosperity that usually accompanies SREZs justifies any friction between ethnically and politically diverse provinces (Yue 266).

Considering these examples of Malaysia’s segregated society, it follows the country’s ethnic groups largely keep to themselves. The Chinese Malaysians, for instance, attend Chinese schools and marry among themselves (Viknsins). Still, diversity in Asia has not been entirely divisive. Thailand’s citizens, for instance, are quite close to the southern Chinese.
Routine Corruption

Another aspect of life in developing countries and LDCs alike is routine corruption, or prebendalism. In Thailand it's quite common for police to establish check-points in the more rural areas to collect "grease money" in exchange for protection (Viknsins). This seemingly petty example might not seem significant enough to affect a nation's balance of payments, but it has had an aggregate effect on Thailand's economy. In the 1960s and 70s, Thailand could have made a fortune exporting teak, but the cost of obtaining it was unpredictable—it depended on how many people stood between the seller and the purchaser (Viknsins). Bribes and corruption are so common in parts of Asia that they are actually accounted for in the budgets of Asian firms. Of course this remains a real problem for US-based MNCs, as paying bribes are illegal if they fall under the US' Corrupt Foreign Practices Act, and are otherwise unethical.

Urban Bias

Another administrative concern to firms considering investment in Asia and indeed, many LDCs, is one of "urban bias." The notion of "urban bias" stems from a number of perceived inequities and inefficiencies that take advantage of the rural masses. In his book, Why Poor People Stay Poor: A Study of Urban Bias in World Development, Michael Lipton notes that "The rural sectors contain most of the poverty, and most of the low-cost sources of potential advances." Lipton, who can be characterized as one of several voices of the New Dependencia School, regards "urban bias" as more than a conflict between
urban and rural, rich and poor, educated and uneducated, or one ethnic group against another; rather it is the compounded effect of each of these conflicts that re-enforces the much larger problem of demographic prejudices.

Urban areas have gained favor in LDCs for a number of reasons. These countries lack the necessary funds to create an infrastructure of highways and phone lines, sufficient to serve a business community. As a result:

industrialists, urban workers, even big farmers, all benefit when agriculture gets squeezed, provided its few resources are steered, heavily subsidized, to the big farmer, to produce cheap food and raw materials and cities.” (Lipton 19)

Therefore the work force of urban areas, comprised of employees who earn 5 to 10 times a rural farmer's income, are able to purchase produce at a lower price than what the farmer must demand.

Some of the statistics that Lipton provides are quite compelling. He argues that 20% of investment for development has gone to agriculture. Moreover, less than 12% of foreign aid has gone to agriculture. These figures are disturbing given estimates that between 1/4 and 1/5 of the world's people are undernourished and poverty-stricken and subsist strictly on their ability to succeed as small-scale farmers (Lipton 75).

The ASEAN Success Story

From the 1985, East West Center's Conference on the ASEAN and the Pacific Basin, sprung an anthology based on lectures delivered by several influential political and
economic figures. The focus of the conference was an investigation into the dynamic created by rising export platforms and trade groups among the ASEAN and NICs. The attendees are largely divided in their perception of whether individual countries were responsible for the prosperity of South East Asia, or if instead it is a complex network of “subregional economic zones” among these countries that actually warranted “praise.”

And while a less partisan economist, Serji Naya, offered ASEAN countries somewhat less praise there is one issue on which each attendee seemed to agree: The economic success of these countries is partially owed to both traditional and new alliances that has served to transform primary product manufacturing into knowledge-intensive, high-tech manufacturing. A summary of the addresses delivered by three key speakers helps to clarify what makes the Asian Pacific so special.

**Thailand’s Prime Minister and Malaysia’s Deputy Prime Minister on the Challenges of Asia and the Pacific**

Intra ASEAN trade has reached greater efficiency through lifted trade-barriers, Preferential Trading Arrangements, and Joint Industrial Projects. Other regional projects that have empowered these growing countries include the ASEAN Food Security Reserve scheme, the ASEAN Finance Corporation, and the ASEAN submarine cable system. Although Tinsulanonda acknowledges concerns surrounding the Kampuchea conflict, noting that it has been a real setback toward achieving a sense of harmony and social-economic autonomy in the region, he offers an upbeat, though candid, assessment of how the region is poised to succeed through cooperative competition (Martin 48).
Several particular benefits of ASEAN membership are trumpeted by Malaysian Deputy Prime Minister Dato Hitam. Among them is the ASEAN success in preventing the rise of a sense of isolation, one that might have led to the sort of patron-client relationship with the "big powers." Such would have been an invitation to big power competition.

Furthermore, the Hitam notes that the ASEAN has given each of its members the self-confidence to assert itself, and ensure that they not become objects of international politics. He would rather they become the subjects of international relations, ones fit to participate in the affairs of the region and of the broader world. As a result of the ASEAN foreign policy multilateral framework, with its checks and balances, member countries have made policy decisions that go beyond self-interest to strengthen the region as a whole. As a result, conflicting Southeast Asian factions are developing a sense of community, recognizing what unites rather than separates them.

The environment is characterized by mutual understanding and trust, and therefore, confidence, without which Southeast Asian would be a cluster of small, ineffective economies. Under the umbrella of the ASEAN, member states have been able to identify and adhere to four fundamental ground rules for peaceful and mutually gratifying coexistence. First, the strict noninterference with other states; second, the principle of pacific settlement of disputes; third, respect for each other's independence; and fourth, strict respect for the territorial integrity of each member state. The respect that each ASEAN
member has for these ground rules has fostered interdependence among independent nations. Prime Minister Hitam views these political achievements as the most significant.

However, Hitam recognizes that the ASEAN success goes beyond political cooperation and can be characterized by four significant economic accomplishments. First, economic gains made possible through diplomacy; second, such gains have been magnified through the development of location specific advantages (LSAs) resulting in substantial DFI; third, improved intra-ASEAN cooperation; and fourth, cooperative projects such as the ASEAN Industrial Projects program. Still, Hitam cautions that there is a great need for further economic cooperation. He remains hopeful that “the future is pregnant with possibilities, richer and more profound than the already considerable success [the ASEAN has achieved]” (Hitam 28).

Serji Naya’s Interpretation of DFI in the Asian Pacific

Economist Serji Naya’s analysis of ASEAN performance is positive, however, he attributes the economic success of the region to CSAs more so than to LSAs. While he recognizes the political headway gained by the organization is sustainable, Naya claims that “the growth in the economies, trade, and investment potential of member countries has been due not to the combined market or any cooperative efforts, but rather to the good economic performance of individual countries. It is important therefore to look at each country as a separate entity.” An examination of the two ASEAN countries that
concern us, Malaysia and Thailand, makes clear that rapid economic growth in an environment of very modest population growth has allowed Malaysia and Thailand to move from low income to middle or upper income countries. Malaysia and Thailand have managed to attain high real growth rates, export expansion, and low rates of inflation. The ratio of export to income is very high, especially in the 1980s. These figures are particularly significant considering the climate of the world economy: rising oil prices, recession, high interest rates, and protectionism.

Naya attributes the success to a number of economic policy strategies maintained by these countries, and recognizes emerging challenges to continue growth. One key factor has been Korea, Malaysia, and Thailand's ability to mobilize domestic savings and thereby maintain high rates of investment, while simultaneously reducing reliance on foreign capital. Naya warns that with the slow down of DFI in the ASEAN, member states will face increased pressure to bolster domestic savings. For instance, in the case of the marginal savings maintained by Thailand, Naya foresees potential problems.

Another issue is the market-oriented and outward looking development strategies followed by these countries that have led to high rates of export growth and increased efficiency. In this respect Malaysia and Thailand have a greater dependence on trade than NIC member Korea. Naya notes that much of the success of these countries is attributable to their processing primary and labor-intensive products as a foundation from which to transform into high-tech production. He also notes that a wealth of natural resources in labor-intensive countries creates problems such as “rent-seeking” and poor labor ab-
sorption in the manufacturing industries. As a result, Naya blames poor government industrial planning for a continued import-substitution policies aimed at capital-intensive industries. Such policies, he notes, fail to provide sufficient employment opportunities for these labor-rich countries.

The ASEAN member states initially implemented import-substitution policies in the 1960s as a means of advancing industrialization. Tariffs and quantity ceiling were two methods of protecting industries. Furthermore, physical capital was emphasized rather than labor-intensive industry, causing problems for these cheap-labor economies. In the 1970's member countries began incorporating export-promotion policies and the abolition of export taxes followed. These projectionist measures have subsided in the last 15 years and export tariffs remain relatively high, which remains a challenge in some industries.

Naya concludes with an optimistic view of ASEAN economic potential: "For the labor-abundant ASEAN countries, such outward looking strategies will have a significant effect on equity and employment. It can be a powerful instrument for pulling people out of poverty." The next chapter will see if Naya was correct in his assessment by comparing the economic statistics of Korea, Malaysia, and Thailand, to social, quality of life indicators.
Chapter 6
The Peripheral Results of DFI

Comparing BHN Indicators to Economic Indicators

By examining relevant BHN indicators in the context of similarly developed countries, a determination as to whether growth comes at the expense of any can be made. Statistical BHN indicators that speak to a country’s ability to care for its citizens include its population growth, illiteracy rate, proportion of primary school enrollment, average life expectancy, infant mortality rate, and the proportion of its population with access to safe water.

By examining these statistics for Korea, Malaysia, and Thailand, as well as those for other countries in comparable stages of development (albeit, ones that have not experienced significant growth), an unbiased perspective of whether there is a correlation between BHN and income per capita becomes clear. The logic here is that by comparing countries that have sustained high growth rates to others that traditionally have had low growth rates, inferences can be made as to the social effects of LDCs achieving growth by courting MNCs.

The canvas on which BHN statistics are applied is one that concerns a country's economic structure, because it is in an economic context that developing countries are most appropriately compared. The tables and graphs of Chapter 2 have duly demonstrated the relevance of ranking countries in terms of deflated GDP per capita. Accordingly, Table 6-1 on the following page groups, with respect to per capita income, two
comparable countries (expressed in matching color) with Korea, Malaysia, and Thailand. The composition of these nine countries’ economies is expressed with individual pie charts in the accompanying graph; 6-1.
<table>
<thead>
<tr>
<th>Country</th>
<th>GNP per capita (a)</th>
<th>Real Growth Rate (%) (b)</th>
<th>Industry as a % of GDP</th>
<th>Agriculture as a % of GDP</th>
<th>Services as a % of GDP</th>
<th>Population Growth Rate</th>
<th>Infant Mortality Rate</th>
<th>% of pop. w/ Access to Safe Water.</th>
<th>Adult Illiteracy Rate (%) (c)</th>
<th>Primary School Enrollment (% net) (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>8220</td>
<td>7.80%</td>
<td>43.00%</td>
<td>7.00%</td>
<td>50.00%</td>
<td>1.00%</td>
<td>1.10%</td>
<td>78.00%</td>
<td>2.00%</td>
<td>97.00%</td>
</tr>
<tr>
<td>Argentina</td>
<td>8060</td>
<td>1.90%</td>
<td>31.00%</td>
<td>6.00%</td>
<td>63.00%</td>
<td>1.40%</td>
<td>2.40%</td>
<td>64.00%</td>
<td>3.80%</td>
<td>94.00%</td>
</tr>
<tr>
<td>Greece</td>
<td>7710</td>
<td>1.30%</td>
<td>32.00%</td>
<td>18.00%</td>
<td>50.00%</td>
<td>0.50%</td>
<td>1.00%</td>
<td>100.00%</td>
<td>(d) 7.00%</td>
<td>94.00%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3520</td>
<td>5.70%</td>
<td>36.00%</td>
<td>60.00%</td>
<td>40.00%</td>
<td>2.50%</td>
<td>1.30%</td>
<td>78.00%</td>
<td>16.50%</td>
<td>77.00%</td>
</tr>
<tr>
<td>Hungary</td>
<td>3840</td>
<td>-0.90%</td>
<td>28.00%</td>
<td>6.00%</td>
<td>66.00%</td>
<td>-0.40%</td>
<td>1.50%</td>
<td>100.00%</td>
<td>(d) 11.00%</td>
<td>90.00%</td>
</tr>
<tr>
<td>Mexico</td>
<td>4010</td>
<td>0.60%</td>
<td>28.00%</td>
<td>8.00%</td>
<td>63.00%</td>
<td>2.20%</td>
<td>3.50%</td>
<td>78.00%</td>
<td>10.40%</td>
<td>86.00%</td>
</tr>
<tr>
<td>Thailand</td>
<td>2210</td>
<td>8.20%</td>
<td>39.00%</td>
<td>10.00%</td>
<td>51.00%</td>
<td>1.60%</td>
<td>3.60%</td>
<td>72.00%</td>
<td>6.20%</td>
<td>67.00%</td>
</tr>
<tr>
<td>Poland</td>
<td>2470</td>
<td>0.90%</td>
<td>39.00%</td>
<td>6.00%</td>
<td>55.00%</td>
<td>0.30%</td>
<td>1.50%</td>
<td>100.00%</td>
<td>(d) 12.00%</td>
<td>93.00%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>2380</td>
<td>2.80%</td>
<td>26.00%</td>
<td>15.00%</td>
<td>59.00%</td>
<td>2.50%</td>
<td>1.40%</td>
<td>94.00%</td>
<td>5.20%</td>
<td>81.00%</td>
</tr>
</tbody>
</table>

(a) In 1993 US Dollars  
(b) Growth rate figures are from 1985-1994  
(c) World Bank Demographic Indicators, 1995  
(d) Table 1 of World Bank Economic Statistical Indicators  
(e) World Bank Demographic Indicators, 1995
Graph 6.1
GDP by Sector

Korea
- Services: 50%
- Industry: 43%
- Agriculture: 7%

Argentina
- Services: 69%
- Industry: 31%
- Agriculture: 6%

France
- Services: 50%
- Industry: 32%
- Agriculture: 18%

Malaysia
- Services: 29%
- Industry: 26%
- Agriculture: 44%

Hungary
- Services: 66%
- Industry: 28%
- Agriculture: 28%

Mexico
- Services: 64%
- Industry: 28%
- Agriculture: 8%

Thailand
- Services: 51%
- Industry: 39%
- Agriculture: 10%

Poland
- Services: 59%
- Industry: 39%
- Agriculture: 6%

Costa Rica
- Services: 59%
- Industry: 20%
- Agriculture: 15%
Paramount to economic success in today's global market-economy is the improvement of workers' skills and capabilities. Since without a significant investment in a nation's work-force, productivity and standards of living generally become depressed, countries place a priority on employee training and manufacturing efficiency. Moreover, investment in primary education assists a country's work-force in reaching its full earning-power. Besides education, a nation's effectiveness in promoting and sustaining high health standards is fundamental to the viability of attracting foreign investment. However, as Table 6-1, and Graphs 6-1, 6-2, and 6-3 suggest, such social investments alone do not ensure rapid growth.

Educational Indicators

Literacy and numeracy are critical to manufacturing laborers, service employees, and, indeed, agricultural workers because each of these diverse groups requires comfort in mathematics and reading simply to process and use information and perform standard tasks. Primary school education gives rural children transferable skills that allow them to move from an agrarian economy to an industrial one (should they so desire). But primary education is equally necessary for rural and urban people because individuals in both sects must be capable of organizing production and interacting effectively with one another. Many economists agree that if a country is to succeed in adapting to new technologies and production practices, it must maintain a commitment to raising the percentage of its citizens (rural and urban) who have completed primary school.
Yet, despite the importance of reducing illiteracy and the proportion of people without primary education, certain countries have defied the odds and caught up to other, formerly higher income countries, by retraining employees. Skills that are necessary for search-good manufacturing are maintained once a work-force has mastered at least the technologies of manufacturing simplistic products. Once this is accomplished, a country's work-force is in a position to be trained in more sophisticated technologies.

Malaysia's work-force has gradually become effective in experience-goods manufacturing as a result of the country's attention to CSAs. Another factor has been Malaysia's commitment to supporting vertical integration in those industries that have facilitated the transition of its work-force; semiconductors, for instance. Whether or not a country succeeds in mobilizing its work-force--transferring its manufacturing base from search-goods to experience-goods--depends in great measure on how universal its primary education has become. The likelihood that even the best training can overcome a doomed primary education system is slim. Still, Malaysia has uniquely succeed in developing effective trade and vocational schools, despite a 16.5% illiteracy rate (W.B. 328).

**GRAPH 6-2**

![Graph showing illiteracy rates and real GDP growth for selected countries](image-url)
Malaysia's success might irk the officials of many other developed countries with similar income levels (at least those that have sought to balance primary school enrollment and GDP growth), given the difficulty in sustaining the ASEAN's levels of growth. The inconsistency in the relationship between education and development that is expressed by Graph 6-3, can be explained by two causes: first, human capital can be misappropriated (i.e., investment in human capital does not necessarily overcome an environment void of CSAs, OSAs, LSAs, or ISAs); second, investment in human capital can often times be incorrectly guided, i.e., aimed at a concern that is obsolete by the time a return on such investments can be realized (World Bank Development Report 37).

Table 6-1 suggests that either of these two factors may be at work in the case of Costa Rica and Poland. For example, increased school attendance in Costa Rica might have yielded only marginal change on standardized test scores; or Poland's "graduates of public training institutes [might not have been able to find any] market for their new skills" (World Bank Development Report 37).

Furthermore, investment in high levels of education and skilled labor may prove underutilized if development strategies fail to provide a demand for labor. This is particularly true in Vietnam and the Philippines--countries that have traditionally boasted high rates of adult literacy relative to other Asian Pacific countries, but have grown more slowly. Such disproportionate growth levels have occurred largely because these countries
have flawed development strategies—central planning in the case of Vietnam and import substitution in the case of the Philippines—that have failed to take complete advantage of their depth in human capital (Viksnins). Thailand and Malaysia, in contrast, have had relatively low levels of human capital, but nonetheless managed to create enough CSAs to facilitate the investments necessary to boost exports.

Health Indicators

A look at the other BHN issues encompassed under another broad category, "health priorities," which include infant mortality, population growth rates, and the percentage of the population with access to safe water, offer further insight.

The issues that encompass health priorities are more complex than they seem initially. Population growth, for instance, must be sufficient enough to replenish the workforce, while not being so high as to prove an unsustainable burden to a country's economy. The age distribution of a country's citizens is another relevant aspect of population growth. Today's children must be sufficient in number and education as to create enough income to care for a country's 'baby boomers' who will both rapidly diminish a its work-
force and add to its future social security burden\(^1\). Another interesting component of a country's population growth is the percentage of women in its work-force. The thought-process here is that cultures that are traditionally comprised of mostly male workers, are much more likely to face troublesome rates of population growth.

**GRAPH 6-3**

**Population Growth vs. Real GDP Growth**

\[ \text{Graph showing population growth vs. real GDP growth for various countries.} \]

1995 Data taken from Table 1 of the World Bank Yearbook of Economic Statistics

While the data above demonstrates that Korea, Malaysia, and Thailand have relatively higher population growth rates than do their comparable countries, these rates are actually quite decent, except for perhaps Malaysia, which is fairly high at 2.5%. One reason the Asian countries have the highest rate in this sample is because of their relatively

\(^1\) Of course most developing countries have no version of 'Social Security' which will pose a real problem anywhere from 2010 to 2030, depending on its citizens' savings rates.
recent arrival as advanced Stage 2 and 3 countries. Still, many of these comparably developed countries have either dangerously low rates of population growth—such as Hungary with -1%—or equally dangerous, high levels, like those that exist in many Sub-Saharan countries.

Other health indicators, such as percentages of people with access to safe drinking water, and infant mortality rates, are of obvious concern for humanitarian reasons. Polluted water and high infant mortality rates create conditions ripe for the spreading of disease. Today's New Dependencia School proponents would point to a humanitarian priority (one that strives to create an environment with the best chance eliminating disease), as evidence in support of their mission as a whole. Classical economists in support of a utilitarian economic policy might respond by noting that promotion of these, and other health matters, concern the World Health Organization. Furthermore, they would say, development and investment made possible by MNCs (and the countries and institutions that create the advantages that MNCs pursue) do as much to eradicate disease and improve health conditions as would universally safe water and marginal infant mortality rates.

An examination of the Table 6-1 data raises a question that might come from a supporter of a New Dependencia School: “Has the growth rate of Korea, Malaysia and Thailand come at too high a price, an educational price likely borne by the poorest citizens of these countries?” The lack of a consistent positive relationship between rising per capita
income and favorable BHN standing suggests that these indicators are indeed independent.
Chapter 7
Balancing BHN Concerns with GDP Growth

During 50 years of debate over why certain countries respect BHN concerns while others concentrate on economic growth, little has been offered in favor of countries possibly succeeding in achieving respectable levels in both of these domains. If there is any region of the World where developing countries (e.g., Stage 2 and 3 countries) have demonstrated an ability to strike a harmony between BHN and GDP growth, it is in the Asian Pacific. Specifically, Korea, Malaysia, and Thailand. The previous chapter has left no doubt that these countries have experienced outstanding GNP per capita growth, while at least staying close to their comparably positioned countries in terms of BHN indicators. In some cases, such as Korea’s Stage-4-like illiteracy rate, these Asian countries have set model examples in both income growth and BHN areas. In an attempt to understand why these countries have been so successful, qualitative cultural and ethnic issues have been examined, as have quantitative statistical ones. Yet the question remains, “Why have these Asian countries been uniquely successful in achieving high development levels, concurrent to maintaining high BHN standards?”

Savings and Investment Trends in Korea, Malaysia, and Thailand

South East Asia’s economic success can be attributed to two phenomena that stem from its culture: the mobilization of consumer savings; and the allocation of its investments. Although Asia’s rising middle class has fewer investment choices than does its
US counterpart, Asians uniquely benefit from the investment power of organizations such as Japan’s postal institution, JPPS, which controls over 1.4 trillion dollars in assets (Viknsins). Another reason that Asia has reached such terrific savings rates is because its culture regards consumer credit as almost shameful. The idea of buying something that you cannot afford is universally perceived as undisciplined. It simply runs counter to Confucianism and other Asian religious ethics. Savings actually exceed investments in Asia, which allows countries to experiment with new market investments (Viknsins).

Another relevant explanation for Asia’s high savings rate rests in the method of employees receiving income. As much as 33% of skilled-labor income is paid as performance incentives or year-end bonuses. Furthermore, the ‘woman of the house’ controls the family’s cash-flow--Asian businessmen are usually given an allowance by their wives (Viknsins).

Asian businesses function similarly. Lending institutions extend credit to only those businesses that meet very stringent qualification standards.

**Asia’s Continuing Educational Environment**

Asia’s rigid borrowing environment is consistent with its education system, one in which only the most deserving and proven students are given an opportunity to attend university. The World Bank cites that literacy rates of most Stage 2 and all Stage 3 Asian countries are higher than those of countries in comparable NOI per capita positions.

Likewise, public education in these countries typically yields an amazingly high percentage
of scientists, accountants, and engineers--relative to their peers--as these professions are
the most esteemed in their culture (Viknsins). The competitiveness of Asia's educational
system is manifested in Malaysia and Korea's successful adaptation to high-tech sectors
and their rapid progress through the J-curve.

Another critical influence in economic and human capital growth in NICs and
ASEAN countries is their relatively small military. Money that would otherwise be spent
on ships and fighter-jets is pumped back into infrastructure, such as roads and hospitals.
Foreign MNCs interested in cheap labor have found more reliable infrastructure in the
NICs and some of the ASEAN countries (at least in the urban areas) than is available in
countries with similar labor costs (Viknsins).

A Micro Look at the Individual Countries

Much of the parallel progress that NICs and ASEAN countries enjoy today began
only in the last 10 to 25 years. Take Korea for instance, a country that endured Spring
Hunger from approximately 1905 to 1945. During this time the country's poorest paid
dearly for Korea's support of Japan in the Second World War. Korea's peasants nearly
starved during this period, and would have, had it not been for their consumption of
grass and roots (Viknsins).

In 1950, following the Korean War, South Korea was totally drained economi-
cally. Only 0.3% of the population had education beyond a twelfth-grade equivalence, and
86.6% had no formal education at all (Viknsins). The United States provided aid to South Korea, and essentially ran the country until 1965, when it devised an acceptable land reform plan, setting upper rent limits.

As a result of the US Aid departure, two major policy reforms occurred in 1968: an openness to exports (from 4% to 40% in 30 years); and a conservative macroeconomic policy. The Korean savings rate went from 7% of GNP in 1965 to 20% in 1980 and 33% in 1994 (Viknsins). Today Korea enjoys an equally profitable sense of national unity and patriotism. This strength is reflected in the country's literacy and life expectancy rates—the latter up from 54% in 1950 to 71% in 1995. In this period, the ratio of Korean citizens to physicians has dropped from 2500:1 to today's 1400:1, and 80% of the population have access to safe water (Viknsins).

Thailand is further behind Malaysia and Korea. Thai history is marked by conflicts with neighboring countries and has suffered setbacks from attempts at fortifying its western border with Vietnam during the 1960's, 70's, and 80's. However turbulent Thailand's relations have been with its neighbors in the past, today the country is committed to fulfilling its responsibilities as an ASEAN member. King Adulyadej recently surprised some by calling for a heightened level of "cooperation with [Thailand's] immediate neighbors—China, Laos, Cambodia, and Burma" (Political Risk A-2). In the same year, Malaysian Prime Minister Mahathir visited Thailand's Prime Minister Chuan, and agreed to unite in
their stance against Moslem separatist guerrillas operating along their countries' shared border (*Political Risk A-2*).

Like Malaysia, Thailand has been challenged by social tension surrounding income disparity. But in Thailand's case, the division runs along urban and rural lines rather than ethnic. Bangkok is the political, economic, and cultural epicenter of the country where income per capita runs more than three times the national average. Whereas, the average income per capita for inhabitants of the surrounding central plain region is more than 40% above the national average (*Political Risk A-2*).

Since its peak of 13.2% in 1988, Thailand's growth has slowed, nevertheless it remains near 10% (*Political Risk A-2*). Today's more realistic growth rate has eased concerns of the economy overheating. However, a trend of current account deficits running between 6% and 9% continues to kindle investor skepticism. Regardless of these fears, Thailand's plentiful stock of unskilled labor continues to attract DFI, particularly in the garment and textile industries. Thailand's work-force value is not limited to unskilled labor though: "experienced and qualified engineers and technicians are available for between $10,000 and $20,000 per year" (*Political Risk A-2*). Moreover, despite increasingly scarce skilled labor, the turnover rate of MNC-employed Thai's "ranks among the lowest in all of East Asia" (*Political Risk A-2*).

In the case of Malaysia, ethnic and religious ties exist with other Buddhist cultures such as those of Indonesia and China. The cultural heritage of half of the Malaysian citi-
zens is Chinese and Indian. In 1969, race riots ignited over Malay-Chinese tensions surrounding Malaysia's electoral success of the Chinese. Following a two-year suspension of parliamentary action, the New Economic Policy (NEP) was devised to shift the focus of the dispute away from the polarized ethnic class structure, toward one aimed at eliminating poverty through economic reforms (Vikmsins).

Concerns over the racial tension in Malaysia have been largely subordinated to enthusiasm over its rapid economic growth. In the first half of 1993, Malaysia achieved "one of the highest growth rates in the world, showing a 8.1% rise in the first quarter, followed by a 10.4% increase" (Political Risk A-5). One reason for Malaysia's success is its dominance in the world market for palm oil and tin. Malaysia is a major source of rubber, timber, pepper, and cocoa. Another natural resource strength availed itself in 1992, when additional crude oil reserves were found, allowing Malaysia to expand oil production while "retaining sufficient known reserves to maintain production at more than 625,000 barrels per day until at least 1997" (Political Risk A-5).

Today, Malaysia's economy is no longer dependent on natural resource commodity exports. The country has made a rapid transformation into a manufacturing-based economy, one fueled by DFI in the semiconductor industries, as well as in automobiles and consumer packaged goods. Malaysia's success in these areas can be attributed to its vertical strategies. The semiconductor industry goes beyond assembly and includes the manufacturing of "wafers, lead frames, and all the necessary components" (Political Risk
A-5). Vertical integration also exists in Malaysia's auto industry. Apart from assembly, auto manufacturers have expanded into parts and other component producers. Malaysia's commitment to vertical integration has allowed it to narrowly define the curriculum of its vocational education system. Auto parts manufactures, for instance, are more likely to make a rapid transformation into auto assembly plants.

Malaysia seems to be on course toward reaching $5,000 GNP per capita by the turn of the century and perhaps will succeed in its goal of becoming a fully industrialized country by 2020. Yet, such high growth among the NICs and ASEAN countries has brought challenges from critics who charge that staggering GNP growth will always come at the expense of quality-of-life investment. Adding to the concern of focusing disproportionately on GNP growth is the perception that it will lead to hyper growth and a subsequent recession. However, such critics often fail to account for rising prices which parallel GNP growth. Also, these countries have adopted certain DFI laws and generally cooperate with each other--such cultural loyalties do not show up in economic statistics. A sense of "contagion" exists among these countries, so the successes and setbacks of one country are often felt by neighboring countries as they experiment with implementing each other's economic and social policy reforms.
Chapter 8
Epilogue: Lessons Learned

CSAs in Korea, Malaysia, and Thailand: An Ethical Balance Between DFI & BHN

The eclectic dynamic that is the how and why of DFI has been dissected and shown to be empirical. Moreover, the direct correlation between CSAs, OSAs, ISAs, and LSAs, and GNP per capita growth, explains the permanency of MNCs in nations abroad. In light of the marriage between developing economies and MNCs, it is extremely cynical and unrealistic to believe that any amount of Dependencia School criticism will ruin this marriage. Still, the BHN concerns that accompany development are very real. Are political leaders like inexperienced rowers of a long canoe--paddling only on the left-hand economic growth side, and then rushing to paddle for a while on the right-hand BHN side, so as to zigzag into the twenty-first century? Of course not.

Korea, Malaysia, and Thailand are traveling through these waters at different speeds. However, each of these countries is efficiently cutting a straight line in the race toward economic and human prosperity. The success of these Asian Pacific countries is attributed to their ability to find a balance between GDP growth and BHN improvements. Indeed, by attracting the best MNCs in their respective industries, these countries have been able to show a greater commitment to meeting BHN challenges. These countries have seized their LSAs and OSAs and managed to differentiate themselves from
other countries. The result of these efforts has been carefully laid out in the preceding pages of this thesis.

From an economic growth standpoint, Korea, Malaysia, and Thailand dwarf their rival countries, while remaining competitive with them in BHN indicators. Even if these Asian Pacific countries sustain half of their present growth rates over the next decade, they will pull ahead of their comparable countries in those BHN indices where today they are bunched. There is no more clear an example of this than Korea, the only Stage 3 country of this inquiry. Korea is a leader in illiteracy and population growth rates by a decent margin, while in terms of GDP per capita growth Korea is without rival. As Malaysia and Thailand continue their swift movement through Dunning's J-curve, they too will pump capital back into infrastructure--paved and fiber-optic highways, schools, and hospitals--so that by the middle of the next decade these countries will have better BHN rankings than their present peer countries.

This thesis has not shown that the success of Korea, Malaysia, and Thailand is a direct result of their unique ability to balancing BHN and growth objectives where their rivals have not. However, what has come from this study is security in the notion that economic growth need not come at the expense of BHN success. Indeed, it can be inferred from the data that inasmuch as these Asian Pacific countries have created an environment conducive to MNC investment, BHN issues have not gone forgotten.

The notion of dependency that made sense in the 1940s and 50s, has proven painfully obsolete in the case of these Asian countries. The influx of MNCs has created a
new dimension and distinctiveness in each of these economies. Furthermore, proof of the Dependencia School notion—that countries and companies alike share an immediate responsibility to narrow the gap between the world’s richest and poorest people—has not surfaced. In fact, the argument that the most direct method of improving BHN deficiencies is by countries focusing strictly on raising GDP per capita is equally sound. This second point is one reason why certain BHN concerns, such as Malaysia’s high illiteracy rate, can perhaps be justified.

Detracting from the Dependencia stance is the utilitarian notion that deficiencies in BHN indicators for 20 years is a worthy investment in the lives of the next generation. If Malaysia sacrifices literacy rates today, but surpasses Argentina and Greece in terms of GDP per capita growth and literacy rates over the next 20 years, policy makers will sit up and take notice. It is not as though the Malaysian people have not sustained reasonable life-expectancy rates and generally proven to manage without the best literacy and safe water ratios.

However, this type of trade-off has not occurred. Korea, Malaysia, and Thailand have demonstrated that magnificent growth rates can be achieved concurrent to maintaining admirable BHN levels. These countries have not had to subordinate morality to the “greater good” of welcoming foreign investment. Economic progress has expanded the range of human choice in these countries and freed people from external dependence on foreign aid; it has not merely substituted an economic form of dependence for a political or cultural form of dependence.
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