THE POLITICAL ECONOMY OF FOREIGN DIRECT INVESTMENT IN LATIN AMERICA*

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THE NEW BOURGEOISIE AND THE LIMITS OF DEPENDENCY: MINING, CLASS, AND POWER IN "REVOLUTIONARY" PERU. By DAVID BECKER. (Princeton, N.J.: Princeton University Press, 1983. Pp. 368. $37.00 cloth, $10.50 paper.)

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The wrenching economic crisis of the 1980s has directed attention to the political economy of debt, but significant new work continues to be produced on the role of multinational corporations in Latin American development. When one compares the crucial topics that have been neglected, such as the political economy of macroeconomic policy, financial markets, and trade policy, the attention lavished on multinational corporations may appear excessive. The concentration of efforts has nonetheless produced lively debate and rich empirical work.

The central focus of debate on the political economy of multinational corporations in Latin America in the last decade has centered on the insights of a "new wave" of dependency theorists. This literature, which will be analyzed in the first section of this essay, has explored in great empirical detail the complex relationships between foreign and local capital in Latin America. The determinants of host-firm bargaining have also come in for closer scrutiny, and although dependency theorists tend to overemphasize the structural constraints on host bargaining power, the focus on bargaining itself is an advance over earlier dependency thinking. The economic consequences of foreign direct investment have also been investigated in more detail, justifying some of the skepticism of the critics of multinational corporations. I argue, however, that the "new wave" remains weak on the domestic politics of regulating foreign direct investment. By focusing on the external constraints on developing-country choice, the new wave fails to theorize coherently about the way that domestic political forces shape public policy toward foreign firms.

Generalizations culled from the study of import-substituting industries must also be approached with some caution. New forms of direct investment have emerged in export-oriented manufacturing and services as well. In the second section, I argue that these types of in-

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vestment are characterized by different bargaining agendas and conflicts than those found in import-substituting manufacturing and that they engage different social and political forces.

An alternative approach to the study of foreign investment is to situate it more squarely within the domestic political, economic, and sociological context of the host country. Foreign investment is then viewed as a consequence of shifting comparative advantage, property rights, development, strategy, and more discrete regulatory choices. This view helps to isolate the effects of national strategy from those of foreign investment per se and brings politics and the state into the analysis more centrally. It also suggests the importance of comparative research on the political economy of foreign investment, including comparisons that reach beyond the region.

THE MULTINATIONAL CORPORATION IN "NEW WAVE" DEPENDENCY THEORY

In recasting early dependency theory to account for Latin America's rapid industrialization, Fernando Henrique Cardoso ascribed a central role to multinational corporations in the process that he labeled "associated-dependent development" (Cardoso and Faletto 1979, ch. 6; Cardoso 1973). Four issues emerged in subsequent debates about "dependent development" (Evans 1979): the political and economic strength of local firms vis-à-vis multinational corporations; the political correlates of dependency, particularly the link between foreign investment and authoritarian politics; the extent of host country bargaining power; and the economic and sociological consequences of foreign investment.

Local Firms in the "Triple Alliance"

Dependency writing was partly a reaction to the view held both by Communist parties and modernization theorists that the local bourgeoisie constituted a "progressive" force for national development (Jenkins 1984, 146; Warren 1980, ch. 7). Early *dependistas* considered industrial interests weak, co-opted by agrarian elites, subservient to foreign capital, and subject to the continual threat of denationalization. Peter Evans (1979) sought to develop a more nuanced portrait, in which state, foreign, and local capital constituted a "triple alliance." As in any alliance, however, interests overlapped incompletely; the motives of the three parties were a mixture of cooperative and competitive impulses. National firms used their political access to the government and superior knowledge of the local market to defend their positions. Managers of state-owned enterprises had their own institutional interests in expansion, while political elites sought to balance the advantages of foreign investment against the claims of nationalism.

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This picture in itself was highly indeterminate. It offered few clues about the market position and political interests of the private sector within the triple alliance in any particular case. Opinion on this score remains divided. Evans noted the continuing dependence of local firms on multinational corporations for technology and the threat of denationalization in certain sectors, but he also observed that foreign firms turned to local partners for their marketing expertise and political connections in other sectors (Evans 1979, 158–62). The supply and marketing linkages that developed between multinational corporations and local firms suggested a more symbiotic and less conflictual relationship than was often assumed. Conflict was also muted by the concentration of foreign investment in a relatively few leading sectors: rubber, chemicals, machinery, and transport equipment (Jenkins 1984, 33–37). The triple alliance rested on an intersectoral division of labor in which the local private sector retained a significant role.

David Becker, a critic of the dependency approach, provides a sociological interpretation of the cooperative relationship between foreign and local capital. Even where no direct economic partnership exists, "local" and "foreign" capital are gradually merged into a single transnational class, a "managerial bourgeoisie" that encompasses "the entrepreneurial elite, managers of firms, senior state functionaries, leading politicians, members of the learned professions and persons of similar standing in all spheres of society" (Becker et al. 1987, 7; see also Becker 1983, 238–41; Sklar 1976). Becker and Sklar admit that a cleavage occurs between the "local" and "corporate international" wings within this class, but they contend that conflict between these factions is "resolved through the medium of an ideological and behavioral disposition of the latter, a disposition that is captured in the idea of the doctrine of domicile" (Becker et al. 1987, 9). Contrary to dependency expectations, the doctrine of domicile serves to dampen direct confrontation between multinationals and the national objectives of the state and the domestic private sector.

The postimperialism thesis is suggestive in its emphasis on the importance of corporate ideology and transnational class formation. But its central assumptions make it less useful in explaining the conflicts that emerge among the components of a "class" that is defined in extremely broad terms. Gary Gereffi (1983), Douglas Bennett and Kenneth Sharpe (1985), and the contributors to Richard Newfarmer's collection (1985) fall more squarely within the dependency tradition in placing more emphasis on these lines of conflict. The most important threat posed by foreign firms is denationalization. Newfarmer cites data from the Harvard Multinational Enterprise project showing that one-third of all subsidiaries in developing countries entered the parent system via acquisition (1985, 39). The term *denationalization* is often used

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loosely, however. Rhys Jenkins cites data on the increase in the share of total output controlled by multinational corporations as evidence for denationalization (1984, 28), although this outcome simply indicates that multinational corporations were growing faster than local firms. Bennett and Sharpe (1985) and Gereffi (1983) suggest that denationalization includes not only acquiring local assets but preempting opportunities for the development of local firms. This broadened definition demands tricky counterfactual speculation about the benefits that would have accrued had local firms been allowed to develop. It must therefore consider the plausibility of such development and "net out" the returns to owners from the sale of their assets, which are presumably reinvested in other activities (Jenkins 1984, 158–59). This definition must also weigh the costs that might be associated with local ownership, such as privileged political access, protection, and inefficiency. As Michael Shafer (1985) has shown for the mineral sector, nationalization can have unintended political costs in exposing the state directly to new social demands.

Because of its emphasis on international constraints, the new dependency writing has often been weak in reconstructing the broader political milieu in which the debate over denationalization is played out. Bennett and Sharpe, for example, note that multinational corporations "preempt the development of an indigenous economic base by squeezing out local entrepreneurs in the most dynamic sectors." But the authors do not explain why the private sector failed to halt denationalization or even whether they cared to, beyond the observation that the multinational corporations exercised "superior market power" (1985, 128).

The reason for this failure, and a central problem in the new wave literature in general, is the lack of explicitly comparative analysis that would identify the political role of the private sector in defining different investment regimes. Evans offered "dependent development" as a generalizable model of a certain set of late industrializers; as such, the concept is necessarily less useful in understanding national variations in the composition of the triple alliance. One example of such explicitly comparative work is Jorge Domínguez's important study of business nationalism in seven Latin American countries (1982). Domínguez poses a simple question: "[W]hen does national business prefer to behave as part of a transnational alliance with foreign business and when does it join other national elites to constrain (a national bourgeois coalition) or to socialize (a statist coalition) foreign firms?" (1982, 16). Domínguez offers a number of testable propositions, such as the hypothesis that national bourgeois coalitions are more likely to develop where the weight of manufacturing investment is high and has been growing rapidly and where the detrimental effects of a more accommo-

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dating transnational coalition have become apparent. Similarly, Jenkins notes that Latin American countries pursued three different strategies in attempting to restructure the automobile industry in the 1970s: production for world markets (Mexico, Brazil, and Argentina through 1976); liberalization (Chile and Argentina after 1976); and efforts at further regional integration (the Andean countries). Jenkins suggests a number of variables that account for the different approaches, including market size, prior level of development of the industry, and in the case of Chile and Argentina, authoritarian installations that brought market-oriented technocrats to power (Jenkins 1987, ch. 10).

Domínguez's study points to the need to develop a more differentiated understanding of the political and economic interests of the domestic private sector vis-à-vis foreign capital. Here the new dependency writing has exhibited a methodological schizophrenia. Theoretical pronouncements speak of "the" domestic bourgeoisie and "local capital" as more or less undifferentiated groups. Problems of collective action and political organization are thus assumed away, as are the differences that separate integrated economic groups (*grupos*) from smaller firms, manufacturing interests from commercial or financial ones, and export-oriented industries from import-substituting ones (Becker 1983, 239; Lombard 1979, 61). At the same time, the adoption of the industry as the unit of analysis has generated empirical detail that descends to the level of the sector or even the firm.

Despite its many advantages, this sectoral focus omits three intermediate levels of analysis that are important for understanding the politics of regulation. First, a more internally differentiated view of the domestic private sector would identify those segments of business that are likely to be threatened by the entry of a multinational corporation, as opposed to those likely to gain from such entry. This differentiation would permit a theory of business interests vis-à-vis the multinational corporations. Second, there is a need to focus more squarely on the political organization of business through peak associations, links to political parties, and formal and informal political ties to the state itself, in short, to focus on the political capabilities of business in different national settings. Finally, foreign investment can easily become implicated in larger political and electoral conflicts. François Lombard shows that the conservative administration of Misael Pastrana Borrero in Colombia changed its public stance on foreign investment in order to blunt an electoral challenge (1979, 56–58). Such analysis provides the broader political context within which the domestic private sector operates in supporting or resisting the entry of foreign firms.

Analysis of this kind is likely to reveal a longer term and more fundamental process that is exactly the opposite of denationalization: the creation of local firms through industrial policies that either foster

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linkages to multinational corporations or seek to limit their dominance. Evans shows that a triple alliance of public, local, and foreign firms may be orchestrated by the state not only within a particular industry but even within a particular project (1979, ch. 5). Bennett and Sharpe show that denationalization in the terminal end of the Mexican automobile industry was matched by dramatic growth in domestic parts suppliers (1985, 129–35) and that the state's protection and development of local parts makers "was done with little urging from the parts firms," who only later achieved a political voice (1985, 258). Jenkins shows that this process has also taken place elsewhere in the Latin American automobile industry (1987, ch. 7). Adler's study of Brazil demonstrates that technology policies can force the development of local firms even in high-technology sectors where host power would presumably be weakest (1987, ch. 10; see also Grieco 1984 on India). The state's role in class formation through the promotion of national firms remains a rich area for future research.

The Politics of Dependent Development

If the new wave made progress in exposing the complex links and cleavages between local and foreign firms, its judgments about the political requisites of foreign direct investment initially tended toward a rather crude functionalism. For Evans, the common interest in rapid accumulation among the members of the triple alliance demanded the exclusion and repression of the urban popular sector: "in the context of dependent development, the need for repression is great while the need for democracy is small" (1979, 35). Cardoso argued similarly for Brazil that the accumulation processes of associated-dependent development "required that the instruments of pressure and defense available to the popular classes be dismantled" (1973, 147). Guillermo O'Donnell awarded a more central role to domestic variables in explaining bureaucratic-authoritarian installations—popular-sector mobilization, the growth of technocratic roles, and the military's perception of threat—but his central hypothesis took the same functionalist form: authoritarianism was linked to the imperatives of the deepening phase of import-substituting industrialization in which foreign firms played a central role (1973).

It is beyond the scope of this essay to discuss the debates about bureaucratic authoritarianism and democratization, except to note that the more recent literature on multinational corporations has been much more circumspect in linking authoritarian rule to the presumed needs of foreign capital (Gereffi 1983, 31–36; Bennett and Sharpe 1985, ch. 2). Becker (1983) is most explicit in attacking this supposition by arguing that the "corporate managerial bourgeois" takes a largely instrumental

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attitude toward the nature of the regime. The new managerial class may be attracted to authoritarian regimes that provide stability in settings characterized by strong threats from labor and the left. But Becker argues that under certain conditions, this new class may make alliances with democratic forces or even spearhead a liberal democratic project. Interestingly, the conditions suggested by Becker for such an outcome are wholly domestic: an amelioration of the threat from the left, the formation of an alliance with the "middle strata," and the perception that it can gain greater control over economic policy and limit unwanted state intervention (Becker 1983, 273–78, 336–40).

Multinational Corporations, Dependency, and Bargaining

The new dependency writing differs from the old in paying much greater attention to bargaining between host and firm. This bargaining covers a range of issues, including the terms of entry, incentives, regulation, local equity participation, taxation, and trade behavior. In principle, a bargaining approach presumes the possibility of joint gains. Nonetheless, the new dependency literature holds that multinational corporations possess structural advantages that will skew bargaining outcomes in their favor. This assertion may be true, but as Theodore Moran (1974) pointed out fifteen years ago, a purely structural analysis is incomplete unless it includes the changing capabilities of the hosts as well.

What are the advantages held by the multinational corporations? The first stems from the imperfections and information asymmetries that characterize the markets in which multinational corporations operate. The new dependistas draw heavily on theories of foreign investment that emphasize market imperfections (Kindleberger 1969; Hymer 1976). This tendency is seen most clearly in the adoption of an "industrial organization" approach in the excellent collection edited by Newfarmer (1985), but it is apparent in other works as well (Gereffi 1983, 44–49; Jenkins 1984, 8–12; Bennett and Sharpe 1985, ch. 3). These theories argue that the costs of overseas investment deter firms from going abroad unless they are offset by firm-specific advantages over local competitors, such as access to finance, technology, product differentiation, marketing capabilities, managerial skills, and economies of scale. These advantages not only give the multinational corporations power vis-à-vis local firms in the market but translate into bargaining power and the ability to set the agenda (Bennett and Sharpe 1985, ch. 3).

The second source of bargaining power is the sheer weight that multinational corporations carry in developing economies. The oligopolistic structure of the markets in which multinational corporations operate is reproduced in the host economy, giving multinational corpora-

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tions a dominant position in a number of important sectors; Jenkins provides useful comparative data on this score (1984, 29–39). Market structure gives multinational corporations collective or "structural" power over economic performance. Finally, multinational corporations exercise power not only because of their various assets and local position but because of their superior organizational capabilities and ability to evade close government monitoring (Biersteker 1980).

A major contribution of the industrial organization approach adopted by the new wave writers is to suggest why host bargaining power may be weaker in the manufacturing sector than it is in extractive industries. Raymond Vernon (1971), Theodore Moran (1974), and Franklin Tugwell (1975) noted that these traditional investments had several characteristics that weakened the host at the point of entry. Investments were extremely large and demanded that the firm adopt a long time horizon. This necessity allowed the investor to extract substantial guarantees and support for the project prior to committing resources. Once the investment was sunk, however, and host governments increased their capacity to manage standardized production processes, bargaining power shifted toward the host; that is to say, bargains became obsolescent. Even with relatively stable prices, income from such projects resembled a pure rent and was subject to continual and incremental renegotiation. Any increase in commodity prices provided a powerful incentive for the host to rewrite contracts. Costly investments thus became easy targets for regulation, indigenization, and nationalization (Sigmund 1980).

The host-firm relationship differs considerably in import-substituting manufacturing industries. Van Whiting, Jr., has offered the term *renewable bargains*, as opposed to *obsolescing bargains*, to characterize negotiations in manufacturing (1983). The ability of the state to hold out the promise of access to the local market allows the host to exercise selectivity, particularly where the degree of competition among firms is high, the domestic market is large, and overall economic performance is promising. If the industry is a new one, no established clientele may exist to favor entry; if the industry is already established, domestic firms may view foreign entrants as a competitive threat. At the point of entry, therefore, the investor is weakest.

The bargaining relationship changes once manufacturing firms are established. Networks of suppliers, distributors, joint-venture partners, and consumers provide a tacit political base of support for the multinational corporations (Gereffi and Newfarmer 1985, 432). Product differentiation, advertising, trademarks, and consumer loyalty all enhance the bargaining power of import-substituting firms over time by reducing the credibility of nationalization as an alternative (Whiting 1981). Manufacturing industries are also more likely to be characterized

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by ongoing technological change than are extractive industries. As Constantine Vaitsos noted in a classic study (1974), technology markets are typified by fundamental information asymmetries and paradoxes. Bargaining intelligently demands knowledge of the technology that is being sought, but such knowledge is precisely the commodity being sold. Any move to increase national control "will run the risk of severing the lifeline of new innovations" (Gereffi and Newfarmer 1985, 431; see also Kobrin 1987). The bargaining agenda is also more complex than with extractive industries. The issues are not as simple as dividing a rent or expanding national control over an indigenous resource but turn instead on a range of regulatory issues: the appropriateness of products and processes; the transfer of technology; linkages with local producers; employment policies, and so forth.

As theorists of power have long noted, however, bargaining resources are not necessarily translated into control over outcomes; this assumption might be labeled the "structuralist fallacy." The crucial question is how constraining these "structural" features of the relationship between host and multinational corporation actually are. The very nature of the issues being negotiated makes careful measurement difficult, although some interesting efforts have been made at cross-national statistical testing (Fagre and Wells 1982; Kobrin 1987). In assessments based on individual case studies, much hinges on prior expectations and often implicit counterfactual arguments. Judgments about bargaining outcomes also demand a very careful reading of the preferences of the actors at the time; these inferences are particularly difficult to integrate into cross-national statistical tests (Adler 1987, ch. 3; Kobrin 1987, 626). Bargains that are judged as less than beneficial to the analyst post hoc should not necessarily be attributed to the power of the multinationals.

Above all, the bargaining approach demands careful specification of the resources available to the host, including such intangibles as bargaining skill and tactics. Some elements of bargaining power in less-developed countries are likely to be structural, such as market size and level of income. Host bargaining power is also a function of the ability to exploit alternatives to the products and processes offered by any particular firm. It is now easily forgotten that the expansion of commercial lending initially increased host country independence. Foreign borrowing financed the development of both local private and state firms during the 1970s, with a corresponding decline in the relative position of foreign direct investment across the continent. The availability of finance also allowed countries to "unpackage" the services offered by multinational corporations and to purchase them separately (Adler 1987, ch. 10).

Oligopolistic competition should increase national bargaining

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power, but disagreements exist about the degree of international concentration and whether it can be exploited. For instance, Bennett and Sharpe examine Mexico's decision to promote exports in the auto industry as an example of the power of the multinationals in controlling the bargaining agenda (1985). Their story shows that differences in the preferences of the multinational corporations gave the state some bargaining leeway, however. This finding reduces Bennett and Sharpe's case to the somewhat weak counterfactual argument that "had [the multinationals] resisted mandatory exports in unison, the Mexican state would not have prevailed" (1985, 174). But if such differences in corporate strategy are common, it is inappropriate to treat multinational corporations as a bloc or to adopt a bilateral monopoly bargaining model.

One of the most important factors in determining bargaining outcomes is the sophistication and administrative capability of the state. This fact is frequently recognized but sits uncomfortably with the structuralist emphasis characteristic of much dependency writing. Gereffi, for example, concludes his excellent case study on the steroid hormone industry by arguing that the multinational corporations limited Mexico's bargaining power (Gereffi 1983). But at the same time, he notes the importance of government inaction caused by "conflicting priorities within the state bureaucracy, inadequate administrative capabilities for monitoring and regulating the activities of the TNCs, and corruption" (1983, 155). Gereffi suggests that multinational corporation "power" is not a given but is contingent on the institutional capabilities of the host. Analysis of the regulation of multinational corporations needs to be incorporated into a more general theory of comparative public policy.

Dependency theorists, however, have argued that the entry of multinational corporations itself serves to undercut the power of the state (Biersteker 1980). This generalization may not be true because foreign investment can provide incentives for administrative development (Evans 1985). Lombard's study of Colombia shows that the regulation of foreign investment was tied to the broader development of planning capabilities. In controlling foreign investment in 1966 for balance of payments reasons, a new institutional machinery was created that developed an interest in research and information about multinationals' behavior, including such practices as transfer pricing.

Emanuel Adler develops this line of thinking most explicitly in his rich analysis of technology policy in Brazil and Argentina (1987). Policy in both countries was constrained by the domestic political context and by structural characteristics of the industries themselves. Nonetheless, Adler underlines the importance of host-country intellectuals, particularly those he labels "pragmatic antidependency guerrillas," in institutionalizing the capabilities required to deal effectively

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with the multinationals in technology-intensive industries. Adler's research reinforces a simple point made by Moran (1974) but downplayed in the dependency tradition: a dynamic approach to host-firm bargaining demands attention not only to changes in the industry but to learning and institutional development in the host country as well.

The Consequences of Foreign Direct Investment in Manufacturing

The political-sociological and bargaining arguments of the dependistas have been supplemented by a critical assessment of the effects of foreign direct investment. Initial formulations of this critical approach were simplistic, but over time, the perspective has been buttressed by investigation of a set of testable hypotheses (Biersteker 1978, ch. 2). These hypotheses concerned two general sets of questions: the relationship of market structure to firm conduct and performance as well as the effects of foreign investment on income distribution. The literature on the conduct and performance of multinational corporations in developing countries is vast and growing, and some issues, such as technology, would require separate treatment. Because useful summaries of the literature already exist (Vernon 1977; Lall and Streeten 1977; Hood and Young 1979, chs. 5, 6, and 8; Caves 1982, chs. 7–10; Newfarmer 1985, ch. 2), only a few of the most important findings can be underlined.

Once again, an important methodological problem should be noted at the outset, and it again concerns the relative neglect of national policymaking as a key intervening variable in explaining the effects of foreign investment. Many studies fail to devote appropriate attention to the role of policy in inducing certain patterns of investment and firm behavior. Interestingly, the criticisms that are leveled at the multinationals by their critics parallel almost exactly the criticisms that neoclassical economists, and even structuralists, have leveled against the excesses of Latin American import substitution more generally. Disentangling the effects of national strategy and type of investment from the effects of multinationality per se is critical in evaluating the claims of the dependency paradigm (Haggard 1986).

An important issue for host-country bargaining power as well as firm conduct and performance is the level of concentration in the sectors where multinational corporations operate. The evidence, unfortunately, is ambiguous, and much depends on the time frame adopted. Newfarmer points out that for new industries, "after the first firm, any additional entry will reduce seller concentration" (1985). Oligopolistic reaction may also reduce concentration, as will the effects of the product cycle. Vernon traces the decline in concentration ratios from 1950 to 1975 for a number of sectors (1977, p. 81). But evidence on the large

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Latin American countries also suggests that the level of concentration is higher in sectors where multinational corporations operate than it is in those dominated by local capital (for example, Newfarmer and Mueller 1975; Newfarmer 1980) and that the degree of concentration in those sectors is in turn higher in Latin America than in comparable sectors in the United States (Connor 1977). There is also evidence of a relationship between concentration and profitability (on Mexico, see Fajnzylber and Martínez-Tarragó 1976), except for those industries like pharmaceuticals in which parent firms realize profits through royalties and transfer pricing (Jenkins 1984, ch. 4). It must be underscored that concentration and monopoly pricing practices can partly be traced to policy interventions, however, from protection to disequilibrium financial markets that favor the largest corporate borrowers.

The effect of foreign investment on the balance of payments has also been an area of research and debate. The early dependency claim that multinational corporations drain "surplus" from the developing world has a basis in fact, given the possibility that over the life of an investment, profit repatriation can easily exceed the total value of the original investment. The key question is whether such a "drain" can be justified on the basis of the total social return on the investment, including that arising from introducing nontangible capital assets such as technology, worker training, and managerial know-how. To date, few attempts have been made at such comprehensive analysis, although techniques for project appraisal have been developed that could give hosts the power to be more discriminating in project choice (Little and Mirrlees 1974; Encarnation and Wells 1986).

When examining the trade behavior of multinationals, it is particularly important to correct for the effects of policy incentives and type of investment. Multinational corporations in Latin America have higher import propensities than local firms, even after correcting for industry, firm size, and product mix (Newfarmer 1985, 46). The problem of high import propensity is compounded in some sectors by the practice of transfer pricing (Vaitsos 1974). Nor have foreign firms proven to be particularly dynamic exporters (Fajnzylber and Tarragó 1976; Nayyar 1978). But as Evans and Gereffi suggest in an important article, export behavior appears to be closely related to government strategy and incentives (1982). Exports from multinationals in Brazil and Mexico increased in the early 1970s, when both countries sought to supplement import substitution with "diversified export promotion." This basic insight is confirmed by two different kinds of research. Dennis Encarnation and Louis Wells (1986) have shown that trade behavior, as well as social rates of return, vary between import-substituting and export-oriented investments. Stephan Haggard and Tun-jen Cheng show that foreign investment in the East Asian newly industrializing

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countries that have pursued export-led growth strategies (Korea, Taiwan, Hong Kong, and Singapore) is substantially more export-oriented than that in Latin America (1987).

A question of particular interest in evaluating dependency claims is the relationship between growth rates and foreign investment, which has been a major preoccupation of world-systems analysts. Volker Bornschier and Christopher Chase-Dunn (1985) have helpfully summarized a rapidly growing literature in which methodological disputes have played a significant, perhaps even overwhelming, role (Jackman 1982; Bornschier and Chase-Dunn 1985, ch. 5; Mahler 1980). The cross-sectional regression analysis favored by the quantitative world-systems theorists has become increasingly sophisticated, mainly through the inclusion of new variables and more careful controls. But there are reasons to doubt that such highly aggregate analyses of large numbers of developing countries are the correct way to proceed.

First, the world-systems models rest on a set of assumptions that are either unclear or undemonstrated, such as the claim that the "relative increase of net-investment [sic]" tends to slow down "in the course of time" or the claim that local savings are unable to compensate for this slowdown (Bornschier and Chase-Dunn 1985, 81–82). These assumptions are critical to the book's central argument that foreign investment flows are positively associated with growth, but that stocks, which capture the long-term effects of foreign investment, are negatively associated with growth. Even if this claim were theoretically justified, it still would not necessarily support the argument against multinational corporations because, as Bornschier and Chase-Dunn admit, "so long as new investment by transnational corporations remains high, the negative effect of penetration is partly neutralized" (1985, 131).

In actuality, however, the theoretical underpinning for the world-systems argument is extremely weak, and the models connecting foreign investment with growth rates are poorly specified. Little communication seems to take place between the world-systems theorists, who tend to be sociologists by training, and economists who have developed models critical of the effect of foreign investment on domestic savings (Weisskopf 1972) or who have tried more direct modeling of the foreign investment-growth relationship. Several examples will suffice to demonstrate the oversights that result. In a simple growth model, total output is a function of domestic as well as foreign investment, not to mention policy variables that affect the efficiency of investment. Not controlling for these factors is likely to exaggerate the influence of foreign investment on growth. For example, Bornschier and Chase-Dunn claim that the increase in growth rates in Brazil between the middle and late 1960s was a "consequence of this high level of new investment by

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transnational corporations" (1985, 109). No one familiar with Brazil during this period would support this claim standing alone. Bornschier and Chase-Dunn exaggerate the role of multinationals by suggesting that the "transnational investment cycle" is responsible for changes in the level of aggregate investment (1985, 82–83). This outcome may have been true during the 1980s, when commercial borrowing was the major form of capital inflow. But such a view overstates the role of direct investment in domestic capital formation, which tends to be low.

New techniques, particularly computable general equilibrium models and developments in time-series analysis, may allow for a more careful measuring of the aggregate effects of foreign direct investment. But as Richard Caves notes, "all the effects of foreign investment noted earlier [on market structure, savings, trade, and so on] can alter the LDCs' real growth rate one way or another, and there is a clear-cut case for pursuing individual strands of influence rather than trying to measure some amalgam of diverse effects" (1982, 274).

A similar set of charges can be leveled against the efforts to link foreign direct investment causally with aggregate levels of income inequality. Bornschier and Chase-Dunn argue that concentration of land tenure is an intervening variable between transnational penetration and income inequality (1985, 142). But except for those areas where growth in foreign investment in agriculture has occurred, the effect of concentration of land tenure on inequality operates independently of foreign investment. It is not clear in what sense it is an "intervening" variable. Nor do Bornschier and Chase-Dunn suggest the relative weight of foreign investment in explaining inequality, as compared to land tenure, education, or other important variables.

This weighting process is crucial, however, because even critics of foreign investment note that the negative effects of manufacturing foreign investment on income distribution are difficult to disentangle from the effects of import substitution per se (Jenkins 1984, 167). Among other effects, import-substituting industrialization increases returns to manufacturing at the expense of agriculture, embodies a set of incentives that favor the use of capital over labor, and encourages rent-seeking and oligopoly. In its Latin American variant, at least, import-substituting industrialization has depended on a production profile skewed toward the tastes of the upper middle class. Consequently, it is more accurate to refer to foreign investment as one "intervening variable" between development strategy and income inequality.

It is beyond the scope of this essay to review the arguments on multinational corporations and equity in detail, but Jenkins underlines once again the importance of comparative political analysis for making sustainable generalizations (1984). One important debate about the multinational corporations concerns the extent to which they foster "la-

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bor aristocracies" and contribute to labor market segmentation by paying higher wages than their domestic counterparts. Drawing on the work of Humphrey (1982) and Roxborough (1984), Jenkins points out that in the Brazilian auto industry, high wage rates were part of a strategy for labor control that included high labor turnover and hostility toward union organization. In Mexico, by contrast, the auto industry is characterized by high wages, low turnover, and comparatively strong unions that play an important role in controlling labor demands. As Jenkins concludes, "the different nature of the Mexican political economy leads to a rather different strategy being employed by the TNCs towards the working class in the same industry" (1984, 172).

NEW FORMS OF FOREIGN INVESTMENT

Another shortcoming of the highly aggregated cross-national studies from the world-systems literature is the failure to distinguish between the effects of different types of foreign investment. For the most part, the new wave of dependency literature has focused on import-substituting investment in manufacturing. But the politics, bargaining strategies, and economic effects of foreign investment discussed in the previous sections can all vary depending on the type of investment (Whiting 1983; Moran 1985). Two new forms of investment are of particular interest in this regard: "offshore" export-oriented manufacturing investment and investment in services.

The *maquila* or *maquiladora* industries of Mexico's Border Industrialization Program have spawned a large literature (Baerresen 1971; Grunwald and Flamm 1985, ch. 4; Stoddard 1987), which has included specialized studies on women in the maquilas (Fernández Kelly 1983; Tiano 1986) and on migration (Seligson and Williams 1981). The maquilas represent a particularly pure form of export-oriented enclave investment. Maquilas are located in free-trade zones, all output is exported, and most exports are intrafirm because the factories in Mexico are usually integrated into "production-sharing" arrangements with counterparts on the American side of the border. This international division of labor was encouraged by proximity, liberal investment regulations, government provision of infrastructure, and items in the U.S. tariff code (806.30 and 807.00) that allow duty-free importing of parts and components sent abroad for processing. Similar export-oriented enclaves have now developed in Haiti, Colombia, and the Dominican Republic.

The maquilas have come in for a number of criticisms. Even their defenders admit that they exhibit few direct backward or forward linkages with the domestic economy (Stoddard 1987, 34). As a result, they are unlikely to provide much in the way of technology transfer, except perhaps through labor and management training. The generation of

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foreign-exchange earnings has been an important motive for establishing such zones, but gross foreign-exchange earnings are partly offset by the cost of imported inputs, and in Mexico, by the tendency for workers along the border to spend a share of their income in the United States.

As Grunwald and Flamm point out in their comprehensive overview of the role of offshore processing in world trade, this outcome is partly a function of the laws and regulations governing offshore investment (1985, 230). East Asian export-processing zones have increasingly attracted local capital. Firms in the zones are allowed in some cases to sell to the domestic market and are encouraged to seek local sources (Haggard and Cheng 1987). It should be noted that export-oriented foreign investment in Brazil is much more closely integrated into the domestic economy than it is in Mexico.

Nonetheless, even when such policy differences are taken into account, host bargaining power is constrained by obvious limits in these sectors. In seeking to attract extractive and import-substituting investment, host countries hold some bargaining advantages through their control of natural resources and access to the domestic market. But in the case of offshore industries, the assets that hosts hold are geographical proximity to major markets (an advantage held by Mexico and the Caribbean countries) but above all else, cheap labor. Because this "advantage" is shared by most developing countries, host countries usually extend additional benefits to lure investors, including provision of infrastructure, tax breaks, and even assistance in organizing and controlling the work force. The relative power of the firm is further enhanced by the fact that offshore investments tend to be small in size and relatively mobile, exactly reversing the conditions that give rise to the obsolescing bargain in extractive industries.

As with import-substituting investments, assessing the costs and benefits of export-oriented investment depends on the baseline of comparison. What constitutes a reasonable counterfactual argument? Defenders of the maquilas tend to underline comparisons between foreign firms and comparable local ones. Stoddard, for example, argues that "comparisons of multinational maquiladoras and those which are Mexican-owned show that the female worker in the former has a much better ambient, more benefits, less harassment, and can avoid supervisor pressures more readily than in the Mexican-owned plants" (1987, 66). Stoddard advances similar arguments concerning wages and benefits (1987, 43–45). Critics of offshore investment, by contrast, tend to compare working conditions implicitly or explicitly with those in the advanced industrial states and suggest counterfactual arguments that include a more active state role in regulating foreign firms and a labor movement that would press for improved wages and working conditions (Fernández Kelly 1983).

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A completely different set of policy issues has arisen around the growth in services investment. The term *services* has become somewhat of a catchall that covers sectors as diverse as telecommunications, information and data processing, banking, and insurance as well as retail services, fast-food chains, filmmaking, education, and health care. Each service industry has its own peculiarities, but some of the problems that Latin American countries will face are elucidated in Karl Sauvant's study of trade and investment in data services (1986). These investments include computer services, software sales and service, information storage and retrieval, and telecommunications services. These services are becoming critical in their own right and are also part of the international infrastructure supporting other forms of direct investment. More than one thousand corporate transnational computer-communication systems are currently servicing overseas networks.

Some of the policy issues in the services area closely parallel those in import-substituting manufacturing, such as the conflict between the gains from a relatively open policy toward foreign investment versus the loss of control implied by foreign ownership. It is often assumed that developing countries would be consumers of such services, but the more developed Latin American countries are well positioned to develop production capabilities in certain areas, such as software. Brazil is the clearest example of a country pursuing regulatory policies designed to realize such advantages, with predictable debates about the benefits and costs of protection (Sauvant 1986, 101–8; Adler 1987; Cline 1988).

Other issues are novel, particularly the growing role of the United States in pressing for market opening. Efforts to devise an effective code of conduct on transnational corporations through the United Nations have been stymied by opposition from the advanced industrial states. In the services area, however, great interest exists in the United States, Western Europe, and Japan in devising international rules. A series of multilateral codes relevant to services transactions have been devised through the Organisation for Economic Cooperation and Development (Sauvant 1986, 94–95), and the United States successfully pushed "trade" in services onto the agenda of the General Agreement on Tariffs and Trade over the objections of a number of developing countries, including Brazil. These activities mark a new effort to subject national investment rules to multilateral scrutiny. One effect of this trend will undoubtedly be to put pressure on the developing countries to open their markets to service trade and investment, areas in which the developed countries believe they have a comparative advantage. Bargaining in this new area will thus increasingly come to resemble trade negotiations, in which Europe and the United States have used the threat of retaliation to force entry.

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The blurring of the line between trade and investment is particularly visible in services but is part of a wider trend that Charles Oman has labeled "new forms of investment" (1984). In these "new" forms of investment (some are in fact quite old), the foreign firms provide goods, services, or financing that constitute an effective form of control over the project but without holding a majority, or perhaps even any, equity stake. This outcome may occur through licensing agreements, management contracts, franchising, sales of turnkey plants, production sharing, and international subcontracting. As Oman points out, these forms of investment have crucial implications for bargaining relations between the host countries and firms. When a foreign company participates as an investor, it shares with its host-country partner an interest in maximizing the project's returns. Conflicts may arise over externalities and how profits or losses are shared, but an underlying common interest remains. When an investment project represents a sales operation, however, the foreign company's interest lies in maximizing profits on sales; the supplier's interest in the future profitability of the investment becomes secondary. Obviously, the host has the diametrically opposed interest of minimizing the cost of purchased services and inputs. The growth of this type of investment suggests a caveat on the advantages of "unbundling" the assets held by multinationals by purchasing them separately. Such a strategy may imply greater control and the ability to exploit competition, but it also means greater risk, as ultimate responsibility for the project's success is shifted back to the host country.

The burgeoning literature on different types of foreign investment suggests another important caveat on new wave dependency claims. Virtually all of the major works in this vein have been drawn from import-substituting manufacturing. Comparative research is now required not only among countries but among different types of investment if generalizations are to be made.

CONCLUSION: ALTERNATIVE APPROACHES TO THE STUDY OF FOREIGN DIRECT INVESTMENT

Despite the various criticisms that I have offered of new wave dependency writing, it should also be clear that this rich and nuanced literature has made a number of important contributions. These include attention to the relationships between foreign and local firms, close analysis of bargaining, and the exploration of a number of critical hypotheses concerning the conduct of foreign firms. Where do we go from here in advancing a political economy of foreign direct investment?

One alternative would be to "bring the firm back in." Even the most sophisticated of the new wave dependency theorists have fol-

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lowed neoclassical theory in treating the multinational corporation as a unified rational actor. Louis Goodman's *Small Nations, Giant Firms* (1987) adopts a behavioral approach to the firm that analyzes internal decision processes under conditions of uncertainty. Because small countries are marginal to the overall operations of the multinational corporation, branch managers face an uphill battle simply to secure central office attention. Goodman argues that multinational hostility toward Andean Common Market regulations was not so much a function of the regulations per se, which resembled restrictions imposed elsewhere. Rather, the firms' negative responses reflected a central concern with minimizing the use of executive time in marginal markets. In the end, Goodman simply suggests an additional reason why small nations are constrained in attempting to regulate foreign investors aggressively. Nonetheless, the general approach could be extended to comprehend variations in firm strategy and bargaining behavior, as did Theodore Moran in his classic comparison of the investment strategies of Kennecott and Anaconda in Chile (1973).

An alternative approach to the political economy of foreign investment, and one I have attempted to advance throughout this essay, would be to place it more squarely in the context of national development strategies (Haggard 1986). The dependency approach served as an important corrective to a previous generation of scholarship that ignored international constraints. Yet in doing so, it exaggerated the "external-internal" distinction. Recent work in international political economy and comparative politics, as well as open-economy macroeconomics, has shown that "external" constraints are closely connected with the policy regimes that govern the nexus between domestic and international markets. These regimes include trade and exchange-rate policy as well as the regulations governing foreign direct investment and borrowing, all of which are the object of domestic coalitional and bureaucratic conflict.

The "relative autonomy of the domestic level" can be recaptured by exploring the relationship between these national policy choices and patterns of foreign direct investment. More traditional factor-endowments approaches to international trade and investment emphasize the relationship between phase of growth and the composition of foreign direct investment. Shifting comparative advantage results in shifting patterns of investment (Evans and Gereffi 1982; Haggard and Cheng 1987). This observation is easily coupled with an analysis of the mediating influence of state strategy that opens the door to a more explicitly political analysis of foreign direct investment.

State strategy, in turn, may be divided into three distinct components. The first concerns basic property rights, which have periodically been contested in Latin America. Challenges to property rights have

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come during revolutions or periods of high political mobilization: in Cuba under Castro, in Mexico under Cárdenas, in Chile under Allende. As Charles Lipson shows in his fascinating study of the protection of foreign capital (1985), the loosening of international constraints is only partly helpful in understanding such episodes. Much hinges on domestic politics and changing norms concerning the sanctity of property. Viewed over the long term, the history of foreign investment is also a history of changing conceptions of property rights.

The second component of policy is the structure of incentives that result from trade, exchange rate, and pricing policies. These policies define broad development strategies, which in turn powerfully affect the pattern of foreign investment. A full analysis of the politics of foreign investment should examine the initiation of import-substituting regimes in Latin America in the 1940s and 1950s and the decision to "deepen" the industrial structure throughout the 1960s and 1970s. These decisions, about which surprisingly little has been detailed, were intimately linked with decisions about the relationship to foreign firms.

Finally, within a given structure of property rights and development strategy, governments evolve more discrete policies toward particular types of investments, such as tax breaks or various forms of regulation. The new wave has made most progress at this last level, but often without appreciating the larger policy and political context in which regulatory regimes operate.

The line of theorizing suggested here has broad implications for the way that dependency arguments have been formulated and the way that research might be directed in the future. First, many of the outcomes that dependency literature traces to foreign direct investment per se should be seen instead as the result of a broader system of incentives to which multinational corporations respond. Quantitative cross-national studies of the effects of dependency are particularly weak in correcting for the policy environment in which investment takes place. Yet if foreign investment is strongly affected by national strategies, the dependency problematic should be stood on its head, with "dependency" treated as an effect rather than as a cause. "Dependent development" would then properly be seen not as a generalizable model but as a broad rubric within which different national development trajectories can be located. This perspective would open the door to a truly comparative approach to the political economy of foreign direct investment that would reach outside of Latin America for relevant comparisons and contrasts.

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