International Business and The Growth Model

Chimezie A. B. Osigweh, Yg*

I. Introduction

The following is an effort to revisit what scholars have for decades known as, simply, the growth model. Several reasons provide a basis for this effort. First, the "locus of power" in international business relations is increasingly found in the intra-Western sphere pivoted on capitalism (Adler-Karlsson, 1976). This is because the Western capitalist growth model (or simply, the traditional capitalist model of development) is perhaps the oldest, most powerful, most influential perspective that underlies international economic and business relations. Secondly, many of the fundamental premises of this model are to be found in some of the other perspectives, such as the new international economic order (NIEO) model (Fishlow, 1978). Thirdly, the problematique of equity on a global scale, which confronts international development programs, presents a frontal challenge to capitalist business relations in the contemporary world (Fagen, 1978).

First, the origins and basic premises of the growth model will be briefly presented. This will be followed by appraisals of the three major theses of the model. Next, a focus will be placed on the growth model in the context of the activities of international companies. Thereafter, the hidden ramifications of the model will be explored as a final reflection on its economic, as well as, social and political consequences in the contemporary world. Some directions for further research are also considered.

* Assistant professor of management school of business, Norfolk State University, Norfolk, Virginia, 23504.

The vision is of a world of free, unfettered business and economic relations: a world of commercial *laissez faire.* Comparative advantage and consequently comparative cost is expected to arise due to the varying endowments of the physical and human resources of development (i.e., the factors of production). The differences in endowments would generate differences in scarcity and consequently trigger off the inevitability of choice. According to growth theorists, the resulting choice would guarantee that, at least, no country (or other actors within it) is worse off, while the others are better off in a restriction-free environment of business relations. A closer look reveals how this choice affects the three methods of obtaining goods and services.

B. Choice and the Methods of Acquiring Growth-Related Resources

The first method, it should be recalled, stipulates that arrangements be made for the buying of goods and services abroad. This stipulation implies a choice for what has been called export promotion.[3] To pursue this, the (classical) theory of international economic relations, based on Ricardo's "Laws," posits that the country first specializes in the production of some select commodities. Through the specialization, the country can earn enough abroad to pay for its imports.

It may happen that the country is not able to earn enough foreign reserves through its exports to pay for its imports. In that event, the growth model advocates the choice of the method described as "international transfers." These transfers are ordinarily called foreign aids. They may include foreign grants, foreign loans, foreign commercial credits and waivers of payments, and extensions of payment periods. They come in all forms: capital (investment) commodities, agricultural goods, technical assistance, or perhaps military weapons.

These two choices, export promotion and international transfer, have certain things in common. They both make the

[3]Export promotion requires the concentration of efforts on a few products for which export markets exist. Thus, needed imports can be paid for, using the foreign reserves generated by selling the export products.

of business and economic relations rules out protectionism, protection could in the long run result in better economic conditions and prices lower than in an environment of economic *laissez faire*. Little surprise that the ten member countries of the European Economic Community (EEC) are currently making a mockery of their old claim to being the most flexible and open-minded of the rich countries in the Multifibre Arrangement (MFA) system.[4] The loss of 1.5 million textile jobs from 1971-1981 has persuaded these countries to adopt a stringent protectionist policy that imposes severe export quotas on textile exporting developing countries.[5] Beyond employment considerations similar to those faced by the EEC, domestic prices for the protected good may be initially higher; but with increased scale, an ultimate lower price at home could be heralded. In addition, it should be observed that factor markets are not always perfect. Imperfections in market operations may result in what Hla Myint (Myint, 1954) has called "*technological fossilizations.*" Consider, for instance, that some technologies, might be bought from abroad as industrial investments that are initially productive. With time, however, they might freeze and fall out of function, also freezing the rate of production. A tractor originally designed for use in temperate farms would easily evidence such fossilization if used in a farm in a tropical rain forest zone of an African or South American developing country. In recognition of the alarming magnitude of this problem, there is now a renewed surge of efforts toward the search for appropriate technologies for the developing countries.[6]

For example, the Volunteers in Technical Assistance (VITA) and the U.S. Peace Corps, as well as private businesses such as the Wind Baron Corporation of Phoenix have developed windmills that are usable 90 perent of the time, because they can pump water from depths exceeding 1,500 feet in winds of less than 5 miles an hour (Jarmul, 1983; Norman and Blair, 1982). Designs of these windmills are already in use in Thailand, India, Kenya and Colombia. Similarly: Western Solar Refrigeration

[4]The MFA system is an international club that governs world trade in clothes and cloth.
[5]See Economist, Aug., 1982.
[6]See, for example, Norman and Blair, 1982, Murphy, 1983, pp. 12-15, and Cummings, Ralph and Robins, 1983, pp. 28-33.

liquidity problems, while some would be actually forced into insolvency. The defaulting country, on the other hand, jeopardizes its continued access to international credit markets in the future.

Even where rescheduling is feasible, the creditor (or the donor country, as the case may be) might seize it as an opportunity to intervene in the country's internal affairs. When short term bank refinancing adjustments with no grace periods proved inadequate for Turkey's accumulated debt burden in the mid-1970s, the International Monetary Fund (IMF) interceded. However, while the IMF refinanced and rescheduled the Turkey's debt, it forced the government to accept draconian terms that stipulated severe domestic austerity measures. As a result of this meddling, Turkey's economy was miserably deflated and the civilian regime was overthrown.

Debt rescheduling may call for either deferment through the restructuring of future maturities, *or* the injection of new funds, but not both. For example, recent reschedulings for Nicaragua (1980), Peru, Zaire (1979), and Jamaica (1978) included only the rearrangement of future debt service, while those for Sudan (1980) and Turkey (1979) involved the fresh injection of money (Goodman, 1982). This means that indebted countries intent on rescheduling may have to borrow higher proportions of their debt on stiffer and stiffer terms. This often snowballs to compound current account deficits on national balances of payments. It has been projected, for example, that Brazil's foreign debt of $55 billion in 1970 will reach $100 billion by 1987 (Carvounis, 1982). But Brazil is hardly alone in this predicament. For example, data for Latin America indicate that national debt increased by 117 percent in that region during the 1970s (Fishlow, 1982).

It needs to be underscored that as these transfers flow in, they often defer some immediate economic obligations to some future dates. Indebtedness and inability to independently pay is further perpetuated. Brazil's current predicament[7] is a well publicized case in point. Independence is more deeply undermined in as much as the country could be forced to step up active search for additional external aid to help amortize its outstanding debts. A cycle of indebtedness results, weakening the economy, shackling its

[7]See, for example, Business Week (BW), Jan., 1983, pp. 78-81.

cur under other circumstances. In particular, foreign-aid programs that take the form of higher imports of equipment, commodities, or advice are unlikely to reform, even indirectly, the distribution of opportunities for income.

V. Appraising Import Substitution

Let us turn now to the third choice. This method emphasizes homemade goods as substitutes for current imports. It is popularly known as "import-substitution industrialization" since most developing country imports are industrial in nature. It champions the protection of home industries and therefore imprisons the whole idea of *laissez faire.* This perhaps explains why most advocates of the capitalist growth model seldom recommend import substitution as a development strategy. For example, many growth economists and influential businessmen have continued to oppose IMF's economic assistance programs mainly on the grounds that they are tied to import substitution austerity measures. One recently cited statistic in favor of the opposition is that in 1982, Mexico slashed its imports from a developed country by $6 billion under import substitution austerity measures. The reduction cost nearly 150,000 jobs in the developed country, and helped stifle the country's economy (BW, Feb. 1983).

The major strengths of this strategy are twofold. First, import substitution conserves foreign exchange by encouraging that goods be produced at home. Foreign reserves previously spent on the purchase of imports could be used to sponsor internal development and ensure a balance of payments. Second, it enhances national aspirations to industrialization, because concerted efforts are made to domestically produce the previously imported industrial products. With import substitution, however, there still exist problems that undermine development, while perpetuating dependence on external sources. For example, foreign exchange might not even be saved. The early periods of the program might require that more imports (e.g., of raw materials; expensive equipment) be made. Moreover, protectionism, such as tariff exemptions, might propagate a self-defeating type of mock industrial progress — in which domestic industries mainly import semi-finished goods duty-free, and merely assemble these into

ports is stimulated. As a result, the burdens on the third world economy which accrue from the outward return transfer of profits to the developed countries are rendered bearable. Moreover, the international companies are presumed to operate "law-abidingly" in national economies, because governments seem to have the power to control their activities through well-specified regulations and agreements.[10]

The question, however, is whether these private enterprises are "engines of development" as the foregoing premises purport. Gunnar Myrdal (1970, Ch. 7) would remind us that the developing countries are "soft states," which possess inadequate political and economic institutions to combat the bribery, corruption, foul play and other vices associated with the operations of these enterprises. The corporations, themselves, command immense wealth and other power resources. It is not unusual, for example, to find that the annual income of a multinational such as Ford Motor Company runs into several billion dollars, while that of a developing country such as Gamibia is just a few millions.[11] Data for 1978 show, also, that all of the non-oil exporting developing countries generated a Gross National Product of $1.3 trillion. In the same year, the world's largest 100 international firms alone reported sales in excess of $1.1 trillion (Cifelli and Mesdag, 1979). These figures suggest that international companies possess enormous wealth and awesome capabilities. As a result, Weinstein (1976) finds that they are not always law-abiding. Rather, they constantly make a travesty of national control regulations, by engaging in various vices to outwit and overwhelm the governments. Doz (1979) presents a detailed analysis of some of the methods used by international firms to avoid government control. Where a development-conscious government decides to react in extreme cases through expropriations, Chile's predicament in the early 1970s reveals

[10] See Kindleberger, 1965.

[11] Gambia's GNP for 1979 was $161 million. The respective gross revenues for Ford Motor Company, IBM, and International Telephone and Telegraph (ITT) were in the excess of $43.52 billion, $22.86 billion, and $17.2 billion in the same year. The companies' net incomes for the same period were $1.2 billion, $3.01 billion, and $380.7 million respectively. These figures are compiled from *The Hammond Almanac* (Mapple, NJ: Hammond Almanac, Inc.), 1982, p. 573; and *Moody's Handbook of Common Stocks* (NY: Moody's Investors Service, Inc.), 1982.

centives. Won't it please come and invest? Let it bloody well go home.

VII. The Hidden Ramifications of The Growth Model

One would view the development role of the capitalist growth model with a great deal of caution based on the foregoing arguments. The magnitude of this caution is further emphasized when a closer look is taken at some of the subtle social, political, and economic repercussions of this model in the developing countries. The Harvard scholar, Thomas E. Weisskopf, like several other scholars, for example, warns that the model perpetuates abject poverty, crippling inequalities and low welfare levels within these third world countries. If this continues, the arguments go, the ground would be massively fertilized for unforeseen Marxist revolutions in the developing countries. Let me briefly summarize these arguments, chiefly drawing on the work of Weisskopf.

First, the pattern of relations among countries envisaged by the capitalist growth model (which is based on unfettered relations) heightens global geographical, political and economic integration. This increases the magnitude of economic, political and cultural subordination of the poor countries to the rich. This results from the fact that the rich countries have better technology, knowhow, and better qualities of the other economic factors. When they make these available to the developing nations, they are able to attach some strings to them, especially because they enjoy their monopoly. One illustrative consequence is that capital dependency has been found to be a frequent result of these interactions (Bornschier, Chase-Dunn and Rubinson, 1978; Bornschier, 1980). The transactional obligations accruing from these relations predispose the poor countries to cycles of unending indebtedness to the rich.

Arising from these is a second, more structural problem. Given the youthfulness (and consequently inefficiency) of the capitalist institutions in the poor countries, immense intra-country inequalities in the distribution of income (and other power resources) are aggravated in the developing countries. What happens is this? In a capitalist system, each interacting en-

sibility (Tavis, 1982) becomes pervasive, even among the poor country bureaucrats.[15] But these are the administrators and influentials of the national governments. These governments often intervene directly or indirectly to steer the national economy toward some objective. And when they do, it is in so far as the objective does not interfere or conflict with the interests of the more privileged and influential classes. This structure of intranational distortion no doubt, runs counter to the objects of development. Besides, it may lead to a fifth consequence — the *outbreak of Marxist revolutions* in the developing countries. This is because powerful class interests may become eventually generated, and serious conflicts among them fomented, especially since most developing countries apparently seem enthusiastic about practically testing our Gunnar Adler-Karlsson's (1976) hypothese that:

> (a) socialist (or Marxist) nations have consistently been superior to capitalist nations in providing the three E's to almost all the populations, and (b) that the poor socialist (or Marxist) nations have been vastly superior to the poor capitalist nations in solving these basic factors of human existence.

VIII. Summary, Conclusions and Visions for The Future

There is no question that based on the capitalist growth model of development, the West has emerged with economic and business supremacy that is unrivaled worldwide. Whether this model will, in its traditional form, also prove successful in helping the developing countries achieve their development objectives, has been the source of so much concern.

.growth model, Fagen (1978) writes: ".....to the extent that it results in fairer shares for the South, (it) serves to strengthen Southern elites who in the main have little autonomy from antiquity class forces at home. Although some among them may genuinely wish to assault class privilege and maldistribution, they are relentlessly pulled back toward policies that favor the few rather than the many." Note that South refers to the developing countries, while North refers to the developed countries.

15"Developmental responsibility" requires that the public administrator or the corporate manager meets with major challenges: 1)identifying what is best for local development, and 2) setting wealth-related corporate or personal goals aside, in order to cooperate with the local government to achieve local development. See, also, 39, pp. 432-436.

solidation of a pervasive fund of knowledge: the challenge is neither exclusively Western (capitalist), nor purely non-Western. It is a complex, global concern that confronts all those interested in international business relations, and the improved well-being of the world's peoples. Thus, a fourth and possibly most paramount suggestion may be made. Further research should concentrate on developing acceptable alternate paradigms that will require international business scholars, corporate managers or public policy makers to (a) identify what is best for local development, while (b) setting wealth-related corporate or personal goals aside in order to cooperate with local governments to reach local development objectives.

References

Adelman, I. and C. T. Morris, *Economic Growth and Social Equity in the Developing Countries*, Stanford University Press, Stanford, CA, 1973.

Adler-Karlsson, G., *The Political Economy of East-West-South Cooperation*, Springer, Vienna, 1976.

Agency for International Development (AID), "Food Aid Means U.S. Business," *Horizons*, AID, Oct. 1983.

Barnet, R. J. and R. E. Muller, *Global Reach: The Power of Multinational Corporation*, Simon and Schuster, N.Y., 1974.

Bhagwati, J. and R. A. Brecher, "National Welfare in an Open Economy in the Presence of Foreign-Owned Factors of Production," *Canadian Journal of Economics*, 10, 1980, 103-115.

Bornschier, V., "Dependent Industrialization in the World Economy," *Journal of Conflict Resolution*, 25, 3, Sep. 1981.

Bornschier, V., "Multinational Corporations and Economic Growth: A Cross-National Test of the Decapitalization Thesis," *Journal of Development Economics*, 7, 1980, 191-210.

Bornschier, V., Chase-Dunn, C. and R. Rubinson, "Cross-National Evidence of the Effects of Foreign Investment and Aid on Economic Growth and Inequality: A Survey of Findings and A Reanalysis," *American Journal of Sociology*, 84, 1978, 651-683.

Brecher, R. A. and E. U. Choudhri, "Immiserizing Investment from Abroad: The Singer-Presbisch Thesis Reconsidered," *The Quarterly Journal of Economics*, 97, 1, Feb. 1982, 181-190.

Brecher, R. A. and J. N. Bhagwati,

Kirkpatrick, C. and F. Nixson, "Transnational Corporations and Economic Development," *The Journal of Modern African Studies,* 19, 3, Sep. 1981, 367-399.

Kissinger, H. A., "Global Consensus and Economic Developmnt." The Secretary of State's Address Delivered by Daniel P. Moynihan, U.S. Representative to the United Nations at the Seventh Special Session of the U.N. General Assembly, September 1, 1975., Bureau of Public Affairs, Office of Media Services, Dept. of State, Washington, D.C., 1975.

Meade, J., *Efficiency, Equality and the Ownership of Property,* Harvard University Press, Cambridge, Mass., 1964.

Moran, T. H., "Multinational Corporations and Dependency: A Dialogue for Dependentistas and Non-Dependentistas," *International Organization,* 32, 1, 1978.

Murphy, J., "Strengthening Argicultural Research in Developing Countries," *Horizons,* Jun. 1983, 12-15.

Myint, H., "The Gains from International Trade and the Backward Countries," *Review of Economic Studies,* 22, 58, 1954, 129-142.

Mydral, G., *The Challenge of World Poverty,* Penguine Books, N.Y., 1970.

Norman, H. R. and P. Blair, "The Coming Growth in 'Appropriate' Technology," *Harvard Business Review,* Nov.-Dec. 1982.

Penrose, E. T., *The Large International Firm in Developing Countries: The Petroleum Industry,* Allen and Unwin, London, 1968.

Robinson, S. and E. A. Gossage, ed., *Appropriate Technologies for Third World Development,* Martins Press, London, 1979.

Snider, D. A., *Introduction to International Economics,* Irwin, Inc., Homewood, Ill. 1979.

Travis, L. A. "Multinational Corporate Responsibility for Third World Development," *Review of Social Economy,* 40, 3, Dec. 1982, 427-437.

Tendler, J., *Inside Foreign Aid.* Johns Hopkins University Press, Baltimore, 1975.

United Nations, *Instability in Export Markets of Underdeveloped Countries,* United Nations, N.Y., 1952.

United States Government (USG), *The Economic Report of the President Transmitted to Congress, January 1981,* United States Government Printing Office, Washington D.C., 1981.

Uribe, A., *The Black Book of American Intervention in Chile,* Beacon Press, Boston, 1975.

Weinstein, F. B., Multinational Corporations and the Third World: The Case of Japan and Southeast Asia," *International Organization,* 30, 3, 1976, 373-404.