STICHTING ONDERZOEK MULTINATIONALE ONDERNEMINGEN
Centre for Research on Multinational Corporations

SOMO

Statement to the participants of the Round Table on International Trade (Brussels 15-18/1988)

Transnational Corporations and International Trade

Trade is not in the first place something that happens between countries, or between governments. International trade is a subject related to the main executers of that trade: that means the Transnational corporations. I make a difference between trade in primary commodities, manufactured goods and trade in services. This distinction of the conventional tripatite divisions of sectors becomes in a certain sense less usefull because of the explosive growth of conglomerate extensions of the transnational corporations. Still the distinction gives an insight in the historical dominance of transnationals as well as in some of the specificities of the trade in this three sectors.

trade in primary commodities

The trade in primary commodities between developing countries and the developed market economies finds its origin in the colonial period. The economy of the developing countries was restructured into a supply-economy of minerals and agricultural products as raw materials for the industrialisation of the developed economies. Many Transnational corporations found their sources in that period and in the trade of primary product and they still do.

In the post-war period this trade has grown rapidly; just like the increase of the concentratation within the sector. During the fifties and sixties all primary commodity sectors witnessed the disappearance of small and medium-sized companies. Through mergers and takeovers and by bankruptcies the concentration came in 1980 to a point in wich roughly 70-80 per cent of the global primary commodity trade was accounted for by transnational corporations.

The **scheme** (1) gives a detailled insight in the share of the fifteen largest transnationals in each commodity market. In most cases only three to six transnationals account for the bulk of the market. It can be said that the bulk of the total international commodity trade is in the hands of about fifty companies. As a

bron?

SOMO Paulus Potterstraat 20 1071 DA Amsterdam (Neth.) tel.: 020-737515
Postgiro: 2931724 Bankrel.: Rabobank Amsterdam nr. 1028.02.688

illustration of the concentration in the market: the trade in bananas, is for 70-75 per cent dominated by three conglomerates, the cocoa trade is dominated by six corporations, the trade in leaf tobacco is for almost 90 per cent controlled by six transnationals.
The companies are more and more multi-commodity traders and trading affiliates of industrial transnationals. In particular, in the last two decades the domination of primary commodity markets has passed from single commodity traders to firms actif in several global commodity markets. As a example Cargill acquired extensive interests in trade, storage, distribution and processing of many bulk commodities (wheat, corn, coal, cotton, coffee, salt etc.)
The transnationals can control the whole trade because of their position in the chain of the products from raw material to final product. Many are integrated backward into plantations and forward into processing. In stead of running their own plantations, as they did in the past, the transnationals cooperate more and more with state enterprises, who are organising the farmers. The transnatinals take responsibility for the technology and processing for the international markt; the local authorities are responsible for the organisation of the production and the local distribution. Because of this Amsterdam became for example the biggest cocoa-port in the world . All the cocoa is imported from the developing countries and processed by companies controlled by the six largest transnationals (based in united Kingdom en the United States). So Holland is now the largest exporter of processed cocoa products; the suppliers of raw materials are dependent on a few transnationals.

What are the consequences for the developing countries or for the South?
Many countries in the South have an economy wich is increasingly dependent on the export of primary goods. The **scheme (2)** shows the dependence. In spite of the policy of most of the third world countries to decrease the raw material dependency and to increase their own industrialsation, this picture still is the reality.
39 Third World countries, of wich 20 African countries, are for more than 90 per cent of their export dependent on raw materials (excluding oil);
93 countries are for more than half of their export dependent on raw materials.
The terms of trade are deteriorated during a long periode. The prices of the raw metarials are instable, low and sharply decreasing in the recent years. **(scheme 3)**

Compared with the increase of prices of the manufactured goods and the services does it means that the terms of trade became worse and worse. The positions of transnationals cause the ineffectiveness of the International Commodity Agreements, wich are made within the unctad. Analyses and policy recommendations should be made more concrete , this means between related to transnationals and not to countries.
There are two relevant developments of the last decade to mention:
- Research done by the transnationals on biotechnology and new agricultural products lead to a rise in productivity, lower commodity prices and extreme flexibility for the transnationals. So there is a continuing proces of substitution of products by de- and recomposing them: for example vegetable oils in stead of cocoa butter or dairy-produce, corn sirop sugar in stead of cane and beet sugar. The choice of substitutes is made by the transnational, the farmers and supply countries have no say in it. The strategy of for example Coca Cola to use the corn sirop sugar in stead of the cane sugar has direct influence on the sugar-suppliers (last month the economic consequences on the Philippine island Negros became a newsitem)
- There is a subsidy or grant war, in wich the rich countries fight each other in order to dump their surplusses of wheat, sugar, dairy products etc.
During 1980 the state subsidized 18 per cent of United States exports, 34 per cent of the french exports, 35 per cent of the British,and 39 % of the Japanese exports. You may suppose that this percentages are not decreased in the last years and that the biggest exporters benefit most.

Trade in manufactured goods
Apart from the oligopolistic position of the transnationals on the primary commodity market, wich originated from older times, since the interbellum the internationalization of the manufacturing corporations took place. While in the period before, the developing countries were just the suppliers of primary product, in this period they delivered manufactured products, processed by the labor-intensive industries. The transnationals moved part of the production proces to countries with cheap labor and with governments wich are not in a strong bargaining position towards them.
The largest part of the production took place in the free trade zones, in wich unions are forbidden or controlled; neither import nor export are restricted, the profits are taxfree and transferable to the the

holding company. In 1966 only 4 countries had this type of free trade zones, in 1975 there were 79 zones in 25 third World countries, wich increased to 183 zones in 52 countries in 1985. This industrialisation of regions in the Third World causes the increase of the international trade in manufactured goods.

This trade was strongly dominated by the transnationals. In 1977 trade flows generated by transnationals accounted for over 90 per cent of the total United States trade flows. During the same year, domestic and foreign transnationals were responsible for over 80 per cent of total United Kingdom export.

Moreover, available data show that a large proportion of this trade flows are of a intra-firm nature, that means, consisting of transactions among different units of the same firm located in different countries. In the case of the United States, almost 40 per cent of total trade flows in '77 were intra-firm flows between parents and their affiliates. **(Scheme 4)** The intra-firm share in the total United Kingdom exports increased from 29 per cent in '76 to 31 per cent in 1980. Because of this intra firm trade it is even more difficult for national institutions to control the trade.

Moreover intra-firm flows require the use of transfer-prices. There is a widespread technique of transfer pricing designed to enhance corporate interests and circumvent national economic policies. By means of this technique corporations are able to minimize their overall tax liability by manipulating prices of intra-corporation transactions and thus enhancing profits in countries with lower tax rates and trimming them in countries with higher tax rates.

Moreover the companies can put pressure on the local authorities by their valuta management. Through speculation with only a small part of the financial means, of wich the transnationals have the disposal, they can force the national authorities to de- or revaluations of their national currencies.

trade in services

Trade in services is a new item in the international discussions because of the fact that the internationalisation of the developed market economies has entered a new stage. The transnationals control the economic development not only through their dominance of the primary products, nor of the manufactured goods , they have an increasing control on the service sector. The service sector includes the financial services by banks and insurance companies, the transport, communication and information services, (that means the publishers, braodcoasting companies etc), and the consultancy, tourism and sales services (retail, wholesale, advertising etc).

The earliest service transnationals were companies engaged in banking, transport (shipping and railroads), and insurance whose overseas expansion was related to the colonial worlds.
Between the end of the First World War and the sixties, transnational corporations began to enter other service sectors, notably advertising, telecommunications, tourism, retailing and accountancy. None the less, their role was still on a relatively modest scale compared with the concentration and transnationalization of companies in the manufactured and primary good sectors.
Since the sixties, the internationalistion of both services and manufactures has falled together, although in different tempos. The profoundest changes in the service sector were those undertaken by corporations directly linked to tourism, retail trade multicommodity trading companies and diversifying financial institutions.
Related to the first category. Think for example of the strong diversification of the large airlines, wich have expanded most notably into tourism. Almost all large airlines have interests in hotels and tour operations, and a number of them are expanding into activities such as computer services, insurance and catering. Important is also the services sector by franchising companies (McDonalds etc.) The industrialised countries average over 80 different franchise chains from the United States, with over 45 outlets each. In developing countries, on the evarage 44 U.S. franchisors are represented, with over 12 outlets each. **(Scheme 5)**
Related to the multicommodity trading corporations, realise that there are intimate working relations between the big traders and the transnational banks. The largest traders have credit lines up to 1,5 and 2 billion Dollars. Moreover, the ties that bind multi-commodity traders to the large banks are by no means exclusively financial. In several cases, the two are imbricated through interlocking directorships. The multicommodity traders derive their power from economic, political and trading intelligence networks. By using the information technology that means diversification, the transnationals keep in power. Satellite-pictures show the yield of the crops much earlier than national institutions do. For this reason multicommodity traders are more and more involved in the services activities.
The position of the Transnational Banks in world trade

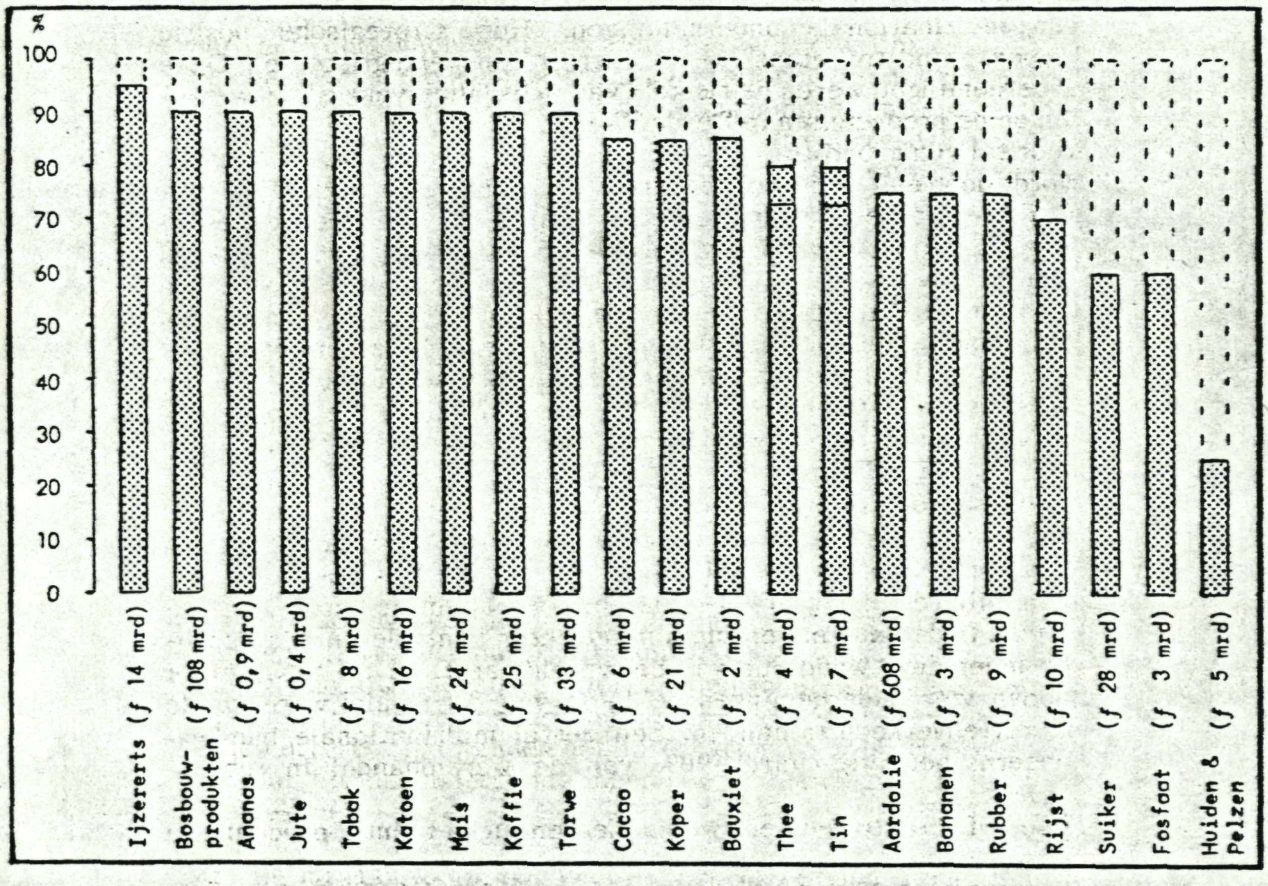
became more dominant. The growth of the foreign profits of the leading United States banks is significant **(Scheme 6)**. In the figures a dramatic change is reflected for the seven biggest United States banks, whose profits from foreign operations soared from 22 per cent of the total profits in 1970 to 55 per cent in 1981 and to a record 60 per cent in the following year alone. This growth has three dimensions:
Firstly the transnational banks play an important role in lending money to finance the imports in the Third World countries , necessary because of the deteriorated terms of trade. One third of the debt in 1983 was owed to commercial banks, wich was rather profitable during that time. For example in 1982 Brazil produced over one fifth of the total profit of Citicorp Bank, although the bank's loan to Brazil accounted for only 5 per cent of the bank's total assets. Nowadays the debt crises of several countries in the South became so critical that it causes a 'second hand trade' in debts. Private foreign companies can buy very cheaply influence and control over national activities.
A second aspect of the internationalization of the financial institutions concerns the diversification and new conceptions of a bank and even of money. They combine insurance services, securities broking, commercial banking, the issue of traveler's cheques and credit cards etc. This diversification is inseparable from technological revolutions in computers, word processors, electronic office equipment and telecommunications systems.
A third aspect is the interaction of electronic technology with government deregulation and the corporate striving for dismantlement of existing barriers. Actual the coming year is the USA proposal to dismantle the state regulations by agreements in the new Gatt Round.
Summarizing the new important trend of transnationals in the services sector: The expansion of service sectors nationally has been matched by a rapid increase in the world trade in services. The transnational corporations threw themselves upon these activities, as they did upon the trade of primary goods and upon manufactured goods.
If we look to the 200 largest corporations in the world **(scheme 7)**, 116 have their headquarters in only five countries: The United States (80), Japan (35), the United Kingdom (18), The Federal republic of germany (17), and France (16). These 116 corporations have acquired over 85 per cent of the aggregate sales of the 200.
Out of the 200 corporations 118 are predominantly (it means over half of sales) engaged in manufacturing and

82 could be classified as service corporations. There is a high level of geografical concentration among the service transnationals: around three quarters of their revenues were accounted for by corporations in two countries: Japan (41 per cent) and USA (33 per cent).
There is still a important trends to mention about the internationalisation of the service sector. The harmonisation of the Common Market in 1992 forces the european transnationals to strengthen their positions to overcome the new competion within Europe. Posibly it will also strengthen their positions against the transnationals, based in Japan and the United States. The Third World is out of this race.

SOMO, Amsterdam
Leo van Velzen

SCHEME 1

SHARE IN DEFFERENT COMMODITY MARKETS,
BY THE 15 LARGEST TRANSNATIONALS IN EACH MARKET



Bron: Unctad Review, Geneve, Winter 1982.

Corporate control of global commodity trade, 1980

Commodity	*Total exports ($ million)*	*Percentage marketed by 15 largest transnationals* [a]
Food		
Wheat	16 556	85-90
Sugar	14 367	60
Coffee	12 585	85-90
Corn	11 852	85-90
Rice	4 978	70
Cocoa	3 004	85
Tea	1 905	80
Bananas	1 260	70-75
Pineapples	440 [b]	90
Agricultural raw materials		
Forest products	54 477	90
Cotton	7 886	85-90
Natural rubber	4 393	70-75
Tobacco	3 859	85-90
Hides and skins	2 743	25
Jute	203	85-90
Ores, minerals, and metals		
Crude petroleum	306 000	75
Copper	10 650	80-85
Iron ore	6 930	90-95
Tin	3 588	75-80
Phosphates	1 585	50-60
Bauxite	991	80-85

Source: UNCTAD secretariat estimates, based on extensive research and interviews with traders and marketing specialists. The figures represent orders of magnitude only.

[a] In most cases, only 3 to 6 transnational traders account for the bulk of the market.

[b] Four-fifths consists of canned pineapples and one-fifth of fresh pineapples.

SCHEME 2

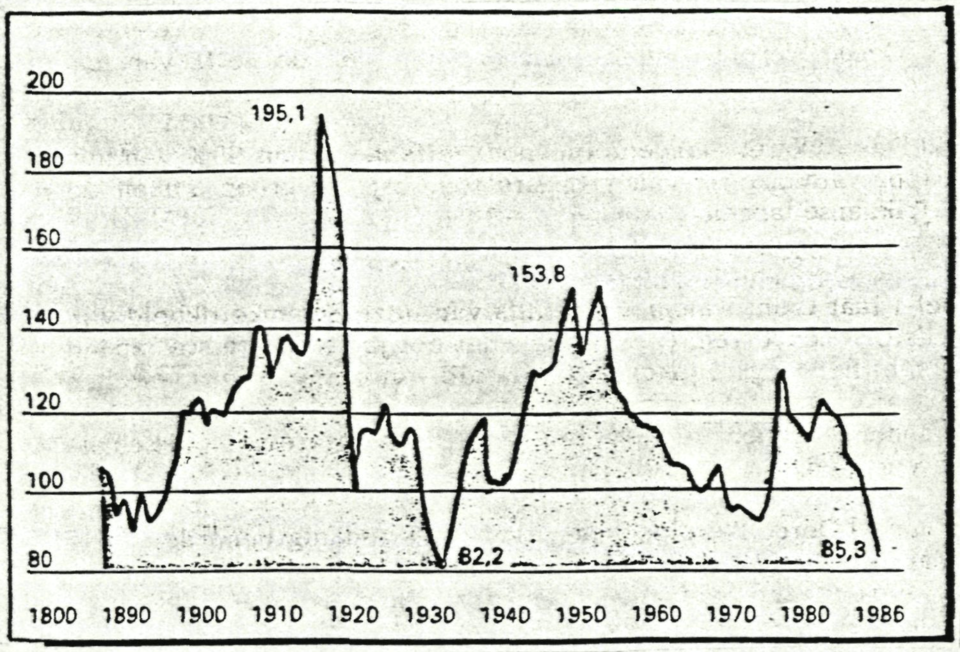
DEPENDENCY OF THIRD WORLD COUNTRIES ON EXPORT OF RAW MATERIALS 1981-1983

COUNTRY Land (Gemiddeld inkomen 1984)	SHARE RAW MATERIALS IN TOTAL EXPORT Grondstoffen-aandeel (%)	MOST IMPORTANT RAW MATERIALS Belangrijkste Grondstoffen
Angola	99 %	(aardolie; koffie)
Burundi (f 770)	99 %	(koffie; thee)
Zaire (f 546)	99 %	(koper; koffie)
Oeganda	98 %	(koffie)
Volksrepubliek Kongo (f 3275)	97 %	(aardolie)
Zambia (f 1284)	97 %	(koper; zink)
Liberia (f 1509)	95 %	(ijzererts; rubber; hout)
Rwanda (f 931)	95 %	(koffie; tin; thee)
Nigeria (f 2440)	93 %	(aardolie)
Malawi (f 546)	92 %	(tabak; vlees; thee)
Cuba	90 %	(rietsuiker; nikkel)
Iran	87 %	(aardolie)
Birma (f 610)	81 %	(rijst; hout; tin)
Mexico (f 6677)	80 %	(aardolie; koffie)
Guyana (f 1830)	77 %	(rietsuiker; bauxiet)
Togo (f 803)	75 %	(cacao; koffie; katoen)
Honduras (f 2247)	72 %	(bananen; koffie)
Ethiopië (f 353)	72 %	(katoen; huiden)
Nicaragua (f 2761)	74 %	(koffie; katoen)
Egypte (f 2311)	71 %	(aardolie; katoen)
Ecuador (f 3692)	69 %	(aardolie; bananen)
Venezuela (f 10947)	69 %	(aardolie)
Maleisië (f 6356)	69 %	(aardolie; rubber; palmolie)
Ivoorkust (f 1958)	67 %	(cacao; koffie; hout)
Tsjaad	65 %	(katoen; huiden)
Costa Rica (f 3820)	61 %	(bananen; koffie)
Chili (f 5458)	60 %	(koper; vismeel; ijzererts)
Colombia (f 4462)	60 %	(koffie; bananen)
Tanzania (f 674)	60 %	(koffie; katoen; tabak)
Indonesië (f 1734)	59 %	(aardolie; rubber; hout)
Dominicaanse Rep. (f 3114)	58 %	(rietsuiker; koffie; cacao)
Mauretanië (f 1445)	57 %	(ijzererts; vismeel)
Burkina Fasso (f 514)	52 %	(katoen; huiden)
Guatemala (f 3724)	51 %	(koffie; katoen; suiker)
Tunesië (f 4077)	50 %	(aardolie; fosfaaterts)

Bronnen: World Bank, World development report 1986; Commodity trade and price trends 1986.

SCHEME 3

PRICES OF RAW MATERIALS OVER THE LAST CENTURY



SCHEME 4

Transnational corporations in United States foreign trade, 1977

Trade (exports plus imports)	Amount (billions of dollars)	Share in TNC-related trade (percentage)	Share in total United States trade (percentage)
Arm's length	149.0	59	53
Intra-firm	105.0	41	38
Total TNC-related trade	254.0	100	92
Total United States trade	278.7	-	100

Source: United Nations Secretariat, based on United States Department of Commerce, U.S. Direct Investment Abroad, 1977 (Washington, D.C.: United States Government Printing Office, 1981); Ned G. Howenstine, "Selected data on the operations of United States affiliates of foreign companies, 1978 and 1979", Survey of Current Business, May 1981; and International Monetary Fund, International Financial Statistics.

SCHEME 5

International Statistics for U.S. Franchises: 1983

Region	*Average Number of Franchisors*	*Average Outlets Per Franchisor*
Industrial Countries		
Canada	217	35.8
Europe	75	58.3
Australia	61	35.0
Japan	56	90.7
United Kingdom	53	42.1
New Zealand	21	18.1
Average	80.5	46.7
Developing Countries		
Caribbean	86	8.3
Asia	65	15.9
Middle East	37	7.1
Mexico	36	13.8
Africa	30	19.8
South America	29	16.1
Central America	25	6.2
Average	44	12.5

Calculated from data in A. Kostecka, *Franchising in the Economy 1983–85* (Washington, D.C.: U.S. Government Printing Office, 1985).

SCHEME 6

Growth in foreign profits of leading United States banks

Bank (Ranked on basis of 1982 assets)	Foreign profits (M USD) 1970	1981	1982	Percentage of total profits 1970	1981	1982
Citicorp	58	287	448	40	54	62
Bank America	25	245	253	15	55	65
Chase Manhattan	31	247	215	22	60	70
Manufacturers Hanover	11	120	147	13	48	50
J P Morgan	26	234	283	25	67	72
Chemical New York	8	74	104	10	34	39
Bankers Trust New York	8	116	113	15	62	51
Total	167	1 323	1 563	22%	55%	60%

Source:
Calculated from data from Salomon Bros, in *The Economist*, 1978-01-14, and *Forbes* 1982-07-05 and 1983-07-04.

FRG	4	45 034	3.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	9	92 904	7.8	7	89 733	4.8	16	[illegible]	[illegible]
Netherlands	—	—	—	4	86 377	4.6	4	86 377	2.8
Italy	1	10 150	0.8	4	74 331	4.0	5	84 481	2.8
Canada	5	38 772	3.2	2	16 309	0.9	7	55 081	1.8
Brazil	1	8 442	0.7	1	18 937	1.0	2	27 379	0.9
Spain	—	—	—	2	21 574	1.2	2	21 574	0.7
Switzerland	—	—	—	2	20 427	1.1	2	20 427	0.7
Israel	2	17 463	1.5	—	—	—	2	17 463	0.6
Others[3]	—	—	—	10	118 233	6.4	10	118 233	3.9
Total	**82**	**1 192 067**	**100.0**	**118**	**1 853 612**	**100.0**	**200**	**3 045 679**	**100.0**
World GDP[4]								9 421 452	
Top 200 as % of GDP								32.3	

Notes:

[1] A service TNC is any TNC deriving over half of its revenues from services; a manufacturing TNC is any TNC deriving half of its revenues from manufacturing.

[2] Ranked by combined sales of top service and manufacturing TNCs.

[3] Including ten countries with one TNC in the top 200: Mexico, Venezuela, Iran (Islamic Republic of), Kuwait, Sweden, Austraia, Belgium, Republic of Korea, India and South Africa.

[4] Excluding socialist countries.

Source:
Computed from data in *Forbes*, 1983-05-09 and 1983-07-04.

STICHTING ONDERZOEK MULTINATIONALE ONDERNEMINGEN
Centre for Research on Multinational Corporations

SOMO

Transnational Corporations and the international trade: policies and recommendations

1) Asessment of the world trade

The world economy is undergoing a momentous structural change. Internationalisation is the crux of this change. Transnationals control the internationalisation and they contributed to deepen the present crises in the world economy. There are different phenomena of this crisis:

Related to the transnational dominance on the primary commodity market: to mention the monoculture in most third world countries; the deterioration of the terms of trade; the increase of an export oriented cash crop at the expense of a food crop; a strong competion between the developed market economies to control the world market, subsidised by the different goverments for tremendous amounts of money; a increasing substitution of natural products by new products. All these phenomena are changing more under the influence of transnationals than of under the influence of state policies.

Related to the trade in manufactured goods: the transnationals organised part of the production in the third world, especially in the free trade zones; they are out of control of the goverments; The international trade in manufactured goods is mainly dominated by transnationals. An important part of this trade is intra-firm trade, wich is completely a matter of company stategy, wich they can manipulated with tranfer prices. The changes in the international production structure happened more and more rapidly. The industry became a run-away industry; the pay out period of investment became very short. The flexibility of industrial processes is increased, in consequence the local authorities are increasingly dependent on the strategy of the transnationals to continue the industrialisation or to run-away.

Related to the transnationals in the service sector, the transnationals from the USA and from Japan exercise a far more pervasive control over services in the world market than they do over agriculture, mining and manufacturing. They are impelling the service sector at a faster pace than any other sector. The harmonisation of the Common Market in 1992 is in the first place in the interest of the european transnationals, wich have to strenghten their position in respect to United States and Japan.

2) Policy perspectives and positions

The prevailing international trading system is set by the rules of the GATT, the IMF, the World Bank and the Transnationals. They set the dominant doctrine related

SOMO Paulus Potterstraat 20 1071 DA Amsterdam (Neth.) tel.: 020-737515
Postgiro: 2931724 Bankrel.: Rabobank Amsterdam nr. 1028.02.688

to the global market; that is: the panacea for the global crises is the eradication of the trade barriers and liberalized market access.
This naive vision finds its counterpart in domestic policies concerning privatization of sectors which were controled by the state and liberalisation of the of the movement of capital.

In the background the Unctad and the cartels of countries tried to get the market under control. The Unctad organised the International Commodity Agreements. The supply-countries of some primary commodity products organised themselves in 'country-cartels (OPEC, oil; CIPEC, copper; IBA, bauxite; ATPC, tin; UPEB, bananas) All those activities did not change the world economic and trade structure in favor of the developing countries; not even did they stabilize the terms of trade, to say nothing of a change for better terms of trade.

In the background too there were in the seventies several discussions about 'a code of conduct' for transnational corporations. The OECD, ILO, UNCTAD among others agreed on some codes of conduct. During the eighties most of the discussions came to a dead end. The transnationals gained ground upon the Third World. In the developing countries the Newly Industrialising Countries had become more dependent on transnationals because of their debts and their need for technology. Other developing countries (for example in Africa) are not of interest to the international economic world anymore: thet are just kept alive by aid-transfusion. Because of this situation the countervailing power against transnationals is weakened.

3) Policy recommendations
Neither on multilateral level, nor on bilateral level were state organisations able to control the strategies of the transnationals. There is a increasing influence of a small group of transnationals on the socio-economic development of the world. Through the free market ideology and the privatization, the transnationals gain more ground upon the countervailing organisations. There is no reason to presume that the transnationals will give up their positions, on the contrary, the international competition will force the companies to form constantly growing economic blocs.

About the role of the international state controlled organisations. There may be a choise between three options:

1) Continuance of the present-day situation, wich means that the majority of the organisations (ILO, Unctad, UNIDO, UN etc.) have no real power and the transnationals are gaining more ground upon them. We may close our eyes and hope that only 'the others' will be struck and that we shall overcome. The stronger against the weaker in a beggar-my-neighbour policy.
2) Try to transform the existing organisations according to the intensions in wich they are founded, wich means a greater power of real decisions of the United Nations Institutions. In my opinion this option seems to be a illusion, the stronger countries will turn away from this organisations more and more and go their own way. So the choice will come down to the first option, that means continuance of the present day situation
3) Reform of the international consultative system. The reform seems to be vital to keep hold on the growing economic inequality. A reform like that could mean for example, the installation of a Socio-Economic Security Council on the analogy of the Security Council of the United Nations. However, such a reform will only be realistic if it concurs with a 'bottom up movement' to control and settle the socio-economic development of the world economy.

Instead of a top down approach, wich is always in favor of the transnationals, I insist on the reinforcement of the bottom up approach.
Those, who are directly affected by transnationals in their lives and work, are best able to organise and to act as a countervailing power. That means unions, farmers' organisations, consumers' organisations, environmental movement, peace movement etc. should be reinforced.
Reinforcement of their countervailing power requires:
- more international networks and contacts between their organisations,
- more right to information,
- recognition of the freedom of organisations,
- extension of negotiation rights of unions, workers councils, local authorities etc.

I would like to propose to agree on a international declaration of social rights. In addition to the Helsinki Agreement, in wich the fundamental human rights have been lay down, an internationally accepted manifesto should have to be formulated, in wich this social rights are laid down. This rights should be testable, controlable and enforceable by means of sanctions.

SOMO, Amsterdam
Leo van Velzen