The Diplomacy of Multinational Corporations (MNCs): Bargaining with Developing States

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Assignment presented in partial fulfilment of the requirements for the degree of Master of Arts (International Studies) at the University of Stellenbosch

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December 2004

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Declaration

I, the undersigned, hereby declare that the work contained in this research assignment is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

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Abstract

This assignment investigates the bargaining relationship between multinational corporations (MNCs) and developing countries. The units of analysis of this study in Global Political Economy are MNCs (non-state actors) and nation-states. In the contemporary global production structure the 'balance of power' between MNCs and developing countries has shifted in favour of MNCs. Descriptive secondary sources were used to illustrate the MNC-State bargaining relationship in telecommunications privatisation in Sub-Saharan Africa.

In the contemporary global economy nation-states only rarely still compete for territory, but rather for wealth-creating activities to be located within their borders. Important changes in the global production structure have resulted in the increased mobility and economic power of MNCs. These developments have affected the strategic relationship between MNCs and nation-states and the former have used their advantage to gain preferential treatment in the bargaining process. The nation-states are also competing amongst themselves for the investment and technology and knowledge transfers from these firms. Privatisation programmes in Sub-Saharan Africa have substantially increased MNC participation on the continent, which has been historically marginalised from global foreign direct investment receipts. Research has shown that MNC participation in infrastructure service provision is more efficient than government ownership. However, this does not constitute a loss of sovereignty, but rather emphasises the changing role of nation-states as facilitators of global market relations. On examination, the distinct bargaining relationship in telecommunications privatisation clearly illustrates the dependence of Sub-Saharan African countries on technologically advanced MNCs. Thus, the 'balance of power' has shifted more to MNCs in the global political economy.

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Opsomming

Hierdie navorsingswerkstuk ondersoek die bedingingsverhouding tussen multinasionale korporasies (MNKs) en ontwikkelende lande. Die ondersoekeenhede in die studie van die Globale Politieke Ekonomie is MNKs (nie-staatrolspelers) en regeringstate. In die huidige globale produksiestruktuur het die mag tussen MNKs en ontwikkelende lande verander sodat die MNKs nou die magsoorwig het. Beskrywende sekondêre bronne is gebruik om die MNK-regeringstaat se bedingingsverhouding in telekommunikasie privatisering in Sub-Sahara Afrika te illustreer.

In die teenswoordige globale ekonomie kompeteer regeringstate selde met mekaar om territoriale mag, maar oorwegend om welvaartskeppende bedrywe binne hul grense aan te moedig. Belangrike veranderings in die globale produksiestruktuur het MNKs se mobiliteit en ekonomiese mag verhoog. Hierdie ontwikkelinge het die strategiese verhouding tussen MNKs en regeringstate verander. MNKs gebruik hierdie invloed om voordeel te trek uit regeringstate wat kompeteer vir belegging en die tegnologie- en kennisoordrag van hierdie korporasies. Privatiseringsprogramme in Sub-Sahara Afrika het MNK-deelname op die kontinent verhoog, wat histories gemarginaliseer is van buitelandse direkte belegging. Navorsing dui daarop dat MNKs se deelname in infrastruktuurdienslewering meer doeltreffend is, as wanneer dit onder staatsbeheer is. Dit lei egter nie tot 'n verlies aan soewereiniteit nie, maar beklemtoon die regeringstaat se veranderde rol as fasiliteerder van globale markverhoudinge. Die ondersoek na die uitsonderlike bedingingsverhouding in die privatisering van telekommunikasie beklemtoon Sub-Sahara Afrika se afhanklikheid van tegnologies-ontwikkelde MNKs. Die magsbalans het gevolglik na die MNKs oorskuif in die globale politieke ekonomie.

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Acknowledgements

I wish to thank Dr Anthony Leysens for his continued support and patience in bringing this assignment to completion.

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Chapter 1
Aim, Scope and Method

1.1 Background and purpose

Multinational Corporations (MNCs) are supremely powerful international non-state actors, many of whose annual total annual revenues exceed the Gross Domestic Products (GDPs) of some nation-states. In attempting to compare the annual total revenue of selected MNCs with the GDPs of nation-states, it emerges that of the 100 largest economies in the world, 51 are MNCs and only 49 are countries. The following examples illustrate this phenomenon: the annual total revenue of Wal-Mart exceeds the GDP of 161; Israel, Poland and Greece, to name a few. The annual total revenue of Mitsubishi exceeds that of Indonesia, while Toyota's is larger than Norway's and Ford's exceeds the GDP of South Africa (Internet 1).

Foreign Direct Investment (FDI) by MNCs is one of the factors driving the globalisation process of the contemporary world economy. MNCs are the dominant element in the multinational system of production, and are further increasing the size and influencing the nature of cross-border transactions. Thus, they are playing an ever-more significant role for developed and developing nations alike (UNCTAD 1997: 1). The process of globalisation is driven by the interaction of changes in many government policies (the liberalisation of trade and capital flows), technological developments that reduce communication and transport costs, and the development of corporate and individual investment strategies (Internet 2). Investment involves more than monetary transfers into a host country. FDI is also a major vehicle for technology transfer and the acquisition of knowledge for the firm as well as the host nation (Ostry 1995: 129).

The power of MNCs is further illustrated by the UNCTAD (2003) report, which states that the global stock of FDI owned by approximately 64,000 MNCs, controlling 870,000 of foreign affiliates, increased by 10% in 2002 to an estimated value of USD7 trillion. The value-added production by the foreign affiliates of MNCs is estimated to account for about 10% of world GDP at a value of USD3.4 trillion. FDI continues to be

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a more important factor in the delivery of goods and services than trade between nations. This is illustrated by the fact that global sales by MNCs reached USD18 trillion in 2002, compared to world exports of USD8 trillion in that same year (UNCTAD 2003: 14).

In terms of its foreign assets about 90 of the world's largest 100 non-financial MNCs have their headquarters in the Triad (USA, EU and Japan). These MNCs are not part of the financial services industry. They play an important role in international production, and in 1999 they accounted for approximately 12% of foreign assets, 16% of sales and 15% of employment (UNCTAD 2001a: 83). In recent years, mergers and acquisitions (M&As) have played an increasingly predominant role in the flow of FDI as reflected in the rush of cross-border corporate take-overs and large-scale privatisation programmes, occurring throughout the world in the 1990s. In developing countries, however greenfield projects provide the predominant mode of entry for foreign investors, followed by MNC participation in privatisation programmes (OECD 2002: 7-9). Izaguirre (1999: 2) defines a greenfield investment as occurring when "a private entity or a public-private joint venture builds and operates a new facility".

Due to the potential impact of FDI on an economy, it is important for the nation-state to act in the country's best interest and regulate the increase of FDI flows by adopting balanced development-oriented FDI policies. Liberalisation on it own is not enough and the recipient country needs to put policies in place to maximise the benefits obtained from FDI, such as upgrading technological and human resource skills, ensuring local procurement from domestic suppliers, encouraging the reinvestment of profits by MNCs, and protecting consumers as well as the environment (UNCTAD 2003: 18).

The late Susan Strange, was dominant scholar in Britain's International Relations community and a leading specialist in the modern study of International Political Economy, argues that too little attention has been paid to the structural changes taking place in finance, technology, knowledge and politics in the world economy. Many of the developments in international politics and business are primarily driven by these

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structural changes. In support of her argument, Strange refers to the rise of the East Asian newly industrialised countries (NICs) and to the policy transformation of many authoritarian governments towards a democratic system, not forgetting the advantages to be gained from an open economy that encourages export promotion. Strange asserts that the common underlying causes of these structural changes, are due to new technology of production, changes in the international financial structure and the lowering of real costs for transnational transport and communication (Strange 1992: 2-3). These developments have increased FDI flows and competition among MNCs (Stopford & Strange 1991: 205). In a globalised economy, nation-states wishing to promote economic activity have to contend with the systemic interdependence between themselves and firms. This ensuing bargaining relationship (state-firm) constitutes a new dimension of diplomacy (Strange 1992: 6).

1.2 Problem statement

Susan Strange (Strange 1997: 366) argues that any analysis of international relations needs to take MNCs into account, because a consideration of the nation-state only as the basic unit of such analyses is not sufficient to explain the changing nature of the international political economy. The explanatory value of International Relations or Economics in isolation fail to explain properly or to accurately predict outcomes, because they fail to take into account the highly differentiated conditions of the nation-state, where social, cultural and political forces often clash with economic imperatives (Stopford & Strange 1991: 204). Globalisation introduces other actors and forces such as private firms, new technology and communications (Strange 1997: 366). For this reason, the field of Global Political Economy is more suited to the study of changes in the global production structure (Strange 1997: 366; 1995: 7-70).

Questions about the nature of power and who controls it in world terms need to be studied. When considering the question of power, in the context of the creation of wealth in the world system, it becomes clear that MNCs play an important role in the future of global relations (Strange 1988: 23-24). The production structure is defined as

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"all the arrangements determining what is produced, by whom and for whom, and by what method and on what terms". The production structure creates wealth, and therefore forms the foundation of the global political economy (Strange 1988: 62-63).

The objective of this assignment is to provide evidence that in the contemporary global political economy the 'balance of power' between MNCs and developing countries has shifted to MNCs. A qualitative method of inquiry will be used, utilising a case study of privatisation in Sub-Saharan Africa. At this stage 'the balance of power' will be defined generally as the capacity of nation-states and MNCs to use their capacities to influence collective bargaining in their favour.

More specific objectives are to:

(i) describe and use the Stopford & Strange (1991) approach to MNC-state bargaining;

(ii) discuss how the contemporary global production structure changed to increase the mobility of MNCs;

(iii) offer an explanation of how MNCs in the contemporary global production structure have gained more influence (power) in the bargaining dynamics with nation-states;

(iv) illustrate how MNCs have used this power to bargain successfully with nation-states by focusing on privatisation in Sub-Saharan Africa.

A study of state-firm bargaining is important for several reasons. This study aims to add to the current body of literature by illustrating the interaction between global production and national interests. Without a better understanding of each role player's goals, structure and processes, our understanding of the sources and uses of power in international political economy remains inexact. It is, therefore, important for both ministries of trade and investment, and their counterparts in international business, to gain a better understanding of the issues involved in globalised bargaining for market shares.

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1.3 Methodology

This research assignment is located in the field of Political Economy. The research was conducted in a qualitative manner consistent with the methodological assumptions of an inductive design. The author advances the conceptual framework of state-firm bargaining proposed by Stopford & Strange (1991). Information will be gathered on privatisation projects in Sub-Saharan Africa, where state-owned enterprises have relinquished ownership and/or control to foreign MNCs, in order to compare the pattern emerging from the data with the theoretical framework. This sample was chosen because it illustrates a distinct state-firm bargaining relationship. The author has an interest in determining whether the Stopford & Strange (1991) framework can be simulated for Africa, an area normally marginalised in the context of MNC activity. Privatisation data from the World Bank Rapid Response Unit's Infrastructure Project database (http://rru.worldbank.org) and the Investment Promotion Network (www.ipa.net) from 1990 to 2002 will be used. Particular attention will be given to the privatisation of the telecommunications monopolies in Africa, because they illustrate the state-firm bargaining most successfully.

In the compilation of this research secondary information sources have been consulted from the University of Stellenbosch, US Bellville Business School, Rand Afrikaans University and the Internet.

A limitation of this research project is that the theory of bargaining between nation-states and firms is broad and generalised. The nature of foreign private investment is assumed to be generic with no specific identification of the industry, whether extractive, manufacturing, or services-based. The figures compiled for privatisation may be inexact, as privatisation data does not always identify individual MNCs. In many instances, foreign private participation is reported in aggregate terms of foreign investors only.

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There are various delimitations. On the issue of non-state actors, this study will only focus on MNCs that are private business entities and will exclude the activities and influence of multilateral institutions such as the International Monetary Fund, World Bank and World Trade Organisation. The question of how FDI affects the sovereignty of the nation-state, issues surrounding the convergence of national capitalist models through economic liberalisation – including trade and investment policy reforms for export competitiveness, financial stability and the deregulation of the market – will not be studied. Furthermore, public policy framework issues surrounding the treatment of foreign firms and the transfer of technology will not be focused on.

In the following sections state-firm bargaining in international political economy will be discussed using the Stopford & Strange (1991) framework. Chapter Two will focus on how the contemporary global production structure has changed in important ways, leading to the increased mobility and influence of MNCs in their relationships with nation-states. A case study in Chapter Three will illustrate the influence of MNCs in privatisation in Sub-Saharan Africa. The incidence, determinants and impact of MNC involvement in previously state-owned enterprises will provide proof that developing countries have been relinquishing state authority to foreign private firms to assist in their economic development. In the Conclusion, the proposed research questions will be revisited.

1.4 Theory and concepts

1.4.1 Stopford and Strange (1991): A framework for MNC-state bargaining

Strange (1988: 18) defines Global Political Economy (GPE) as a focus of inquiry that seeks to explain the complex interdependence of "social, political and economic arrangements that affect the global systems of production, exchange and distribution". These relations result from decisions taken within institutions, governed by rules based on societal values of "wealth, security, freedom of choice and justice". Power in GPE is derived from the global production, financial, knowledge and security structures (Strange 1988: 17, 29-30). The Stopford & Strange framework (1991: 19-23) sets out

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three new dimensions in the global political economy: (i) the bargaining among nation-states for power and influence (state-state bargaining); (ii) the competition among firms contesting the world market (firm-firm bargaining); and (iii) the specific bargaining between nation-states and firms for the use of wealth-producing resources (state-firm bargaining).

Looking at state-firm relations, the global structural changes force the nation-state to make difficult decisions to satisfy two different constituents, that of satisfying foreign firms that bring investment on the one hand, and maintaining the support of its domestic political base on the other. Firms are also caught between two compelling forces, the structural change of global competition and the difficulty of gaining access to developing countries (Stopford & Strange 1991: 203).

There have been fundamental changes in the nature of competition between nation-states. In the past, nation-states competed over territory as a means to create wealth; now they compete for market shares in the world economy. Natural resources may be an asset in the competition between nation-states but they are no longer the sole determinant of success in international competition (Strange 1995: 55-56). This economic competition requires nation-states to bargain with foreign firms wishing to establish their operations within the nation-state, and to prevent national firms from abandoning their home states and setting up their operations elsewhere (Strange 1992: 6).

The basic premise of the framework is that there is a growing interaction between the national strategies of nation-states and the global strategies of firms in the achievement of economic success (Stopford & Strange 1991: 205). The growing interdependence between nation-states and firms creates a climate of competition within the boundaries of the nation-state. The magnitude of FDI has grown to the point where the actions of MNCs directly affect the outcomes of government economic policy. To draw MNCs into the domestic economy requires supportive policy frameworks to maximise the advantages of investment. Thus, it becomes evident that MNCs are not secondary to the study of international relations (Stopford & Strange 1991: 211, 1992: 11).

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Changes in the international political economy have limited the independent options for development available to governments. Governments have become directly involved in the competition to share in the world's wealth by allocating their national resources to wealth-creating activities. The pursuit of wealth is important for state governance because internal cohesion and political survival depend on domestic wealth (Stopford & Strange 1991: 54-56). This shift from foreign policy to industrial policy has made new forms of collaboration possible between nation-states and firms in the pursuit of world market shares (Strange 1991: 204; 1992: 7). The transition from "state authority to market authority" has been mainly driven by nation-states themselves (Strange 1996: 44).

The emergence of the market authority is evidenced by the acts of deregulation and privatisation undertaken by many countries across the world (Stopford & Strange 1991: 205). Since the end of the Cold War, developing countries' international agendas have changed, because there are now many additional countries from the former Soviet bloc that are also competing for the same finite pool of international aid, credit and FDI (Stopford & Strange 1991: 205-206). Furthermore, external policies have been changed by the fact that investment may have become more significant than trade in promoting international economic relations (Stopford & Strange 1991: 212). A striking example of economic change in developing countries is the turnaround on economic policy from protected home markets to the liberalisation of trade regimes; import-substitution to export promotion; state ownership to privatisation; and the initial restrictive actions against foreign enterprises towards more accommodating policies to attract foreign capital (Strange 1995: 68). State-owned enterprises (SOEs) became a prominent feature in developing countries after the 1940s as a means of managing the source of the economy. SOEs were created for a variety of reasons considered to be important to national interests, but conflicting objectives contributed to the their ineffectiveness. For example, targets of output and employment often tend to conflict with targets of profitability. The internal inefficiencies of SOEs and the need to create new international business partnerships have led many governments to consider privatisation, in preference, as a means to promote economic growth (Stopford & Strange 1991: 121).

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The objective of privatisation is to increase the economic efficiency of SOEs. Stopford & Strange (1991: 122) define privatisation as "ranging from the sale of all, or part of the equity, to the transformation of management through management contracts, or leasing agreements with foreign private firms". Privatisation is one method of attracting foreign capital to upgrade the infrastructure of the domestic economy, thus enhancing the country's capacity to participate in the global economy (Strange 1996: 56, 79).

This definition of privatisation illustrates that firms and nation-states, both acting as competitors for market shares as a means to wealth and survival, are cooperating to exercise power over national and international economic development (Stopford & Strange 1991: 212; Strange 1997: 367). Strange emphasises that nation-states still maintain ultimate control over their territories; MNCs who seek access to operate in a country must negotiate with the government for permission (Strange 1997: 368). Each firm has a particular set of assets it uses to bargain with states, such as technology, capital and marketing access to major international markets with which it earns foreign exchange for the host country. Conversely, the nation-state's bargaining position is determined by its factor endowments found within its borders. However, the firm is able to create value from these resources through its knowledge of production (Stopford & Strange 1991: 215; Strange 1992: 7). Refusing access to MNCs will see other nation-states gaining the market share produced by these firms. Nation-states therefore compete to have value-added production located in their territories (Strange 1997: 368-369). Once a firm enters into a foreign market it enters into a political relationship with both the home and the host governments, as well as with various other stakeholders such as ministries, organised labour and suppliers (Strange 1995: 59). According to Stopford & Strange (1991: 18) MNCs consider the following aspects essential in evaluating their growth prospects in a country: (i) the availability of natural resources; (ii) the size of the internal market; (iii) the availability of skilled and economical labour and; (iv) favourable regulatory environments.

Stopford & Strange (1991: 212) maintain that the relationship between nation-states and MNCs seems to be characterised by both cooperation and conflict. To be able to compete for an international market share, nation-states require factors of production to

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be situated within its borders, generally irrespective of who arranges it. Conversely, MNCs require control over their productive assets, irrespective of where they are situated. The issue of legal ownership may also be less important to the firm than to the nation-state. Cooperation is achieved when the nation-state can secure the location of the firm within its territory and the firm maintains control over its business. Conflict arises when the firm wishes to locate its operations elsewhere or when the nation-state interferes with the firm's management of its operations (Stopford & Strange 1991: 211-212).

In its synopsis, the Stopford & Strange framework (1991) contends that the policy turnaround by the governments of developing countries to attract MNCs has changed from the 1970s to the 1990s due to the realisation that MNCs can systematically help or hinder national economic development. Collectively, governments have lost bargaining power to MNCs as the possibility of group action by nation-states has decreased due to intensified economic competition. Consequently, nation-states' bargaining powers have diminished to a greater extent than that of MNCs. The nature of global competition requires access to the factors of production and command of the profits and rents to be derived from selling on the world markets. Nation-states control access to the land, including its resources and labour. However, the importance of this ownership has also declined in relation to the necessity of attracting capital and technology, which the firm either owns or has better access to than nation-states have. As a result MNCs have increased their structural power in relation to nation-states in terms of particular bargaining arrangements, however increased competition may also have eroded their bargaining strength through the introduction of more competitors (Stopford & Strange 1991: 215-216).

Underhill (2000) develops the Stopford & Strange framework further. He argues that the concept of nation-states and markets as separate concepts is useful to explain state-firm bargaining, but that nation-states and firms are not separate entities. In fact, markets cannot function without the nation-state and the market is structured and enforced by the nation-state. He proposes that both should be seen as part of a "state-market condominium". The process of economic integration in global political

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economy is managed simultaneously through economic competition between firms on the one hand, and the regulatory policy processes of the nation-state's institutions, on the other. Therefore, corporate strategies are affected by the incentives, constraints and regulations of nation-states. Likewise, firms are capable of influencing governance and are able to accomplish public goals.

Underhill (2000: 12) goes on to explain that governance is a function performed not only by the nation-state, but also by a variety of public and private, state and non-state institutions and practices. The creation of global markets is made possible by the nation-state surrendering some degree of governance to these non-state institutions, while remaining the political authority over its domain. MNCs and other international organisations cannot exist without the protection of nation-states, and nation-states cannot meet the challenge of globalisation without these organisations. Therefore, it is not so much the "retreat of the state" where global economic forces are undermining state sovereignty, but that the changing role of the state is inextricably linked to the changing nature of global economic competition.

Scholte (1997: 11) supports this view and argues that the modern nation-state no longer defends its sovereignty in the traditional definition of a "unilateral state authority", but that its role has become more modest, viz. "the retention of state influence in a given area of regulation". Subsequently, the nation-state's power to bargain has decreased, while the power of the MNCs has increased, because of the changes that have occurred in the global production structure.

1.4.2 Concepts

Foreign Direct Investment (FDI): "FDI occurs when an investor based in one country (the home country) acquires asset in another country (the host country) with the intent to manage that asset". The investing firm requires a large enough equity position to secure control of the asset and its decision-making processes, generally accepted to be above

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10 percent. The issue of control is central to differentiate between FDI and portfolio capital investment, which includes financial instruments such as stocks and bonds (Internet 3).

Multinational or Global Corporation (MNC): Firms that expand their whole value chain across international locations, treating the world as one market or one process (Internet 4).

Transnational Corporation (TNC): Firms that duplicate parts of their value chain across international locations, treating the world as different segments of the same market (Internet 4).

Diplomacy: Diplomacy is not synonymous with foreign policy, which describes the values and goals of a nation-state's foreign relations with other states. Diplomacy is a means of communication that involves the exchange of ideas, the representation of interests and negotiation. Its aim is to "identify common interests and areas of conflict between parties" (Evans & Newnham 1990: 88-89).

Power: Power relations involve one party with resources soliciting agreement with a resistant party to achieve a preferred outcome. Such capability can be termed as positive or negative, i.e. to reward or to punish (Evans & Newnham 1990: 322-323). According to Strange (1988: 24-30) *structural power* is the ability to influence the structures and agendas of the international political economy within which all state and non-state actors function. Within her paradigm the global political economy is conceptually constructed out of the production structure, the finance structure, the knowledge structure and the security structure. Therefore, structural power refers to an actor's resources and capabilities within the international political economy. In this assignment power will be treated as the ability to determine the "rules of the game".

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Privatisation: Privatisation is defined as "the transfer of operational control of an enterprise from the government to the private sector". It includes "any transaction that results in the government ceding ownership control by decreasing its equity stake" (White & Bhatia 1998: 10).

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Chapter 2
MNCs in the Global Production Structure

Introduction

This chapter discusses the development and dynamics of the global production structure and the changing role of the MNC. It investigates how the global production structure has changed in important ways to affect the mobility of MNCs, enabling them to locate across the world, and how these changes have influenced the bargaining relationship between MNCs and nation-states. Firstly, the structural change in the global production structure and the impact this has had on MNCs and developing countries is discussed. This is followed by an examination of the global foreign direct investment trends. Finally, the factors that affect the bargaining relationship between MNCs and nation-states are investigated.

2.1 Structural change in the global production structure

According to Stopford & Strange (1991) the economic imperatives faced by nation-states and MNCs are driven by changes in the structure of production and financial markets, which in turn affect the international division of labour. The New International Division of Labour (NIDL), termed New Forms of Production (NFP) in the Stopford & Strange framework, is defined as "the sum of institutions and markets which determine who is going to produce what goods and services, on what terms, and by what combinations of the four major factors of production: land, labour, capital and technology". Of these, technology and international finance have the most influence on structural change (Stopford & Strange 1991: 34).

Wells (1998: 104) contends that the general belief from the 1950s to 1960s was that import-substitution was the best way to achieve industrialisation and economic growth. Governments promoted investment in local manufacturing to replace imports, and the majority of developing countries used tariff and quantitative controls to restrict imports.

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During that time, the Fordist system of production was characterised by mass production, following the "Taylorist division of labour" that emphasised standardised assembly line manufacturing using semi-skilled labour. It was based on the macroeconomic principles that productivity is increased through economies of scale in manufacturing and that profits are increased through larger manufacturing capacities. Within this paradigm, it was thought that higher wages for labour would lead to higher consumerism, which would feed back into the expansion of production facilities and investment in more cost-effective technologies (Internet 5).

However, this mode of economic development began to be challenged in the 1960s. Increased competition from firms of the NICs such as Taiwan, South Korea and Singapore, led to their gaining a competitive advantage, through lower cost production over firms from industrialised nations, such as the USA and Great Britain, which usually relied on labour intensive production. Industrialised states could no longer protect domestic industries against cheap and competitive imports by applying punitive tariffs and quotes, these being prevented by multilateral agreements such as the General Agreement on Tariffs and Trade (GATT). In addition, it became evident that protectionism led to the inefficient use of economic resources and consequently to uncompetitive pricing – productivity gains are restricted within the "Taylorist division of labour". Labour costs had to be decreased and productivity increased through process technologies (Internet 5). These developments of increasing international competition, decreasing productivity and increasing wages resulted in firms no longer being able to rely solely on the home market, but having to expand their operations internationally and to pursue markets and profits globally. Nation-states realised that they had to compete with each other to attract FDI to promote economic growth. This was facilitated by governments giving up control of certain facets of the economy, such as deregulating their financial and labour markets (Internet 5).

Towards the late 1960s a new mode of production began to emerge which has been referred to as 'Post-Fordism', or 'flexible specialisation'. The focus for global competition changed from price competitiveness to product innovation. Price competitiveness was not considered secondary to the aims of firms, but product

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development was now the firm's key to competition, while keeping costs to a minimum. To meet the aim of product development a multi-skilled labour force is required, as also the mechanisation of production processes and closer coordination between them (Kaplinsky 1991: 259-260).

These developments from NIDL to Post-Fordism changed the economic factors that influenced the location decisions for firms. In Fordism, large inventories were held in case there were any disruptions in production. Post-Fordism introduced the concept of "just-in-time (JIT) inventory systems", reducing the need for large inventories. This system required suppliers to be located close to the production process, and dependable delivery. Greater product flexibility allowed manufacturers to adapt products to consumer demands, making it necessary to locate production facilities close to the final market. Accelerated product development and frequent product improvements required closer cooperation and coordination between firms (i.e. "simultaneous engineering"). There was a transition from the Fordist single-tasking to the Post-Fordist multi-tasking, which altered the role of labour in the production process. Labour was no longer a cost to be minimised, but a resource to be maximise (Kaplinsky 1991: 260-261).

The flexibility of Post-Fordism impacted on the optimal scale of production. It impacts on the on the size of the product range, the size of the manufacturing plant and the size of the firm. A single plant could produce a much wider variety of products, resulting in a decrease in the average manufacturing time. Plant size was also decreasing due to flexible work practices and the ease with which mechanization technologies could be adapted, reducing the direct costs of production. However, because firm size is determined by the large indirect costs of R&D, marketing and organisational capacity – which can only be recouped against increasing sales – there was still an increase in firm size. It is therefore important for the firm to maintain operational control over its production processes and to collect the profits derived from its technological assets (Kaplinsky 1991: 262-264).

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2.1.1 The impact of structural change on MNC strategy

The MNCs response to dramatic changes in the global political economy was to create "integrated international production systems", the aim being to create competitive advantages through the best possible positioning of production processes across the world by exploiting differences in costs, resources and markets (UNCTAD 2002b: 121). With different outcomes in different countries and industries, the expansion of production is driven by three main factors: (i) policy liberalisation, (ii) technological innovation, and; (iii) increased competition.

Firstly, the policy liberalisation undertaken by nation-states, especially in trade and investment regulations, increases the flow of goods, services and knowledge between different locations. Secondly, the driving force of rapid technological innovation, with rising costs and risks, makes it imperative for firms to compete for world markets. Also, falling costs of transport and communication make it economical to integrate distant operations and relocate operations across the globe, in search of efficiency (UNCTAD 200b: 121). Dunning & Narula (1997: 7-8) explain that technology improves the coordination of activities situated in different countries. Information and computer technologies (ICT) reduce costs of obtaining and distributing information. MNCs can coordinate their dispersed activities better to respond to the changing circumstances in the countries in which they operate. There is a benefit of reduced transaction costs through better coordination within the firm's own network (i.e. "intra-firm") and also between different firms (i.e. "inter-firm"). Also, new technologies have shortened product life cycles, increasing the rate at which products are developed, improved and manufactured. The need to remain competitive increases the cost and effort of research and development (R&D). Therefore, firms need to recover these costs by increasing the price per product, improve the efficiency of production processes, and/or gain a larger market share. Whatever strategy MNCs choose, they will seek to expand their markets into other countries.

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Thirdly, the previous two driving forces lead to increased competition between MNCs, who are compelled to increase their efficiency by shifting activities abroad so as to reach more markets and reduce costs (UNCTAD 2002a: 4). Firms must contest the same markets as their competitors and exploit competitive advantages wherever they can (UNCTAD 2002b: 121).

These significant forces in global political economy have changed the corporate strategies of MNCs in managing their dispersed activities. Given the impact of MNCs on investment and trade flows, it is important for developing countries to understand the dynamics of MNC strategies (UNCTAD 2002b: 121-122).

There are three key elements to MNC strategy, namely: governance, global value chains and geographic configuration. Firstly, governance refers to the control structure that coordinates the different geographic and operational units of the MNC. Governance can take on different forms, ranging from arrangements by which the firm retains equity control (i.e. FDI) to non-equity relationships with external parties. With equity governance, direct managerial control is maintained through ownership. This method provides better control and protection of firm-specific advantages (FSAs) such as technology and brand name. There has been a move towards non-equity arrangements with external firms such as suppliers, producers and marketers. Such arrangements include franchising, licensing, subcontracting and management and marketing contracts. They enable the systematic outsourcing of wider ranges of MNC activities, allowing the MNC to focus on its core competencies. These trends suggest that technology and competition have changed the governance structure of firms from internalising control of all activities towards increased specialisation of those activities in which the firm is more proficient. Complex global industry structures are created through outsourcing of non-core activities to independent firms across various locations with the parent company focusing on its core competencies and managing the diversified production network (UNCTAD 2002b: 122-123).

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The second element of MNC strategy that affects the global production structure is referred to as the "global value chain", referring to all those activities that add value to the production and distribution of a product. This includes the development of technology (R&D, product and process technology); through to the production phase (i.e. procurement, production and assembly, testing and packaging); and marketing (i.e. distribution logistics, sales, advertising, brand management). These functions can all be segregated and outsourced to independent firms so that MNCs can focus on their core competencies. This trend heralds a move away from the "vertical integration" that characterised MNCs until recently, and which refers to the strategy of integrating more activities in the value chain, under the direct control of the MNC. As a result, there has been an increase in the number of manufacturers operating under contract (UNCTAD 2002b: 123).

The third element of corporate strategy is the geographic location and organisation of production. Here, cost differences govern the decision. Differences in production costs of one location are appraised in terms of productivity relative to other functions located elsewhere in the corporate network. MNCs have to be located close to their suppliers and offset markets in order to increase coordination and reduce costs (UNCTAD 2002b: 124-125).

The activities of firms contesting world markets determine competitive structures. Firms have three ways of contesting markets. Firstly, exporting is the chosen method when used when transportation costs are relatively low and the there is an advantage in creating larger operations in one location, e.g. Boeing. Secondly, the firm may choose to invest in a foreign country and create a duplicate operation to serve the domestic market. This way may be taken when the transportation costs and import taxes are high compared to the cost of the product, such as domestic products, or when there is a need for local service delivery, such as retail banking. The third alternative is to license or franchise products, services or trademarks to domestic firms, such as Coca-Cola. Factors determining a firm's chosen method of contesting markets across nation-states include the size of the domestic market, regulations and the existence of competitors and suppliers in that market (Stopford & Strange 1991: 66-67).

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Stopford & Strange (1991: 70-71) point out that the search for new markets and resources has several advantages for MNCs. Firstly, it allows for more control of activities in different countries, resulting in more profitability and efficiency than relying on arms-length market forces. This is common when taking advantage of a technical innovation or brand name, the products being exported at the outset and local subsidiaries is established later to ensure suitable control as the market develops. This is especially important when there is a need to guarantee the quality and reliability of the product. Secondly, the establishment of new markets allows MNCs to "exploit the advantages of scale". Capital-intensive industries can attain significant cost savings by running in fewer but larger plants and exporting to other markets. The advantages of scale also afford benefits when the costs of developing products or processes are high (Stopford & Strange: 1991: 70-71). Firms with "economies of scope" have the advantage of being able to identify opportunities faster than domestic firms and build networks of supply that combine the strengths of various locations and so further reduce the total cost of supply (Stopford & Strange: 1991: 78-79). Therefore, the pursuit of new markets and resources allow MNCs to spread the risk of inconsistent demand and to lower costs by diversifying sources of supply and markets. Market-seeking investors may wish to lessen the risk of uneven demand by operating in several markets. Likewise, resource-seeking investors may also wish to reduce uncertainty in supply by relying on suppliers from different countries (Stopford & Strange 1991: 71).

2.1.2 The impact of structural change on developing countries

As the international division of labour (i.e. NFP) developed, the power of MNCs to move away from the factor costs of a national location was increased and the advantages of global scope reinforced. At the same time, the notions of comparative advantages between nation-states were also challenged. Anticipating future sources of advantage is important to successful negotiations between nation-states and MNCs (Stopford & Strange 1991: 66). A conflicting element is introduced by the mobility of the factors of production, due to the transportable resources of MNCs and the mainly stationary labour base of an economy, which affects the appeal of nation-states for potential investors (Stopford & Strange 1991: 34).

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The NFP has some advantages and disadvantages for developing countries, bearing in mind that new technologies serve as barriers of entry to firms from developing countries. As the costs of NFP increase, many firms must choose between markets primary to their performance and those that are secondary to them. Due to the high cost of innovation, patent holders may choose not to make new technologies available to keep their options open. Developing countries have no options but to negotiate with the patent holders to acquire access to newer technologies (Stopford & Strange 1991: 38).

Although most developing countries failed to develop the required skilled resource base and infrastructure, Information and Computer Technologies (ICT) created some benefits for them amongst which are: easily accessible information about policies, inducements and procedures; developing countries are enabled to compete more successfully for investment. Further, ICT facilitates better organisation of production within countries (Dunning & Narula 1997: 8)

2.2 Foreign Direct Investment

The growth of international production is encouraged by ongoing market liberalisation. The primary rules and regulations of an FDI framework set out the administration of the terms of entry and treatment of foreign investors, as well as the operation of the markets. Other policies that apply to trade and privatisation influence the effectiveness of core FDI polices, because they affect the foreign investors' location decisions. Once an enabling FDI policy framework is in place, economic factors assert themselves as location determinants for MNCs (UNCTAD 1998: 27-28).

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2.2.1 Trends in foreign direct investment

Dunning and Narula (1997: 2, 7) argued that many developing countries have tried to improve their strategies to attract more FDI, but lack sufficient development of their "human and technological infrastructure, macro-economic policies and institutional frameworks". Consequently, FDI has remained largely concentrated in the developed countries. The failure by developing countries to attract FDI can be ascribed to three factors: firstly, there has been a reorganisation in the way in which MNCs manage their international operations; secondly, there has been a change in the type of location-specific resources that MNCs seek, and lastly, the nation-states' expectations of MNCs' contributions has changed. Table 2.1 shows that many governments, faced with ever decreasing FDI inflows, increased the liberalisation of FDI regimes to increase FDI inflows.

Table 2.1: Changes in national regulations of FDI, 1991-2002

Item	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Number of countries that introduced changes in their investment régimes	35	43	57	49	64	65	76	60	63	69	71	70
Number of regulatory changes of which:	82	79	102	110	112	114	151	145	140	150	208	248
More favourable to FDI	80	79	101	108	106	98	135	136	131	147	194	236
Less favourable to FDI	2	0	1	2	6	16	16	9	9	3	14	12

(Source: UNCTAD 2003: 13)

Table 2.2 below provides a summary of the host country determinants that attract FDI from MNCs. Also, the FDI strategies by MNCs can be classified according to market-seeking, resource-seeking or efficiency-seeking motives.

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Table 2.2: The MNC and host country determinants of FDI

Host country determinants	Type of FDI classified by motives of MNC	Principal economic determinants in host countries
I. Policy framework for FDI • Economic, political and stability • Rules regarding entry and operations • Standards of treatment of foreign affiliates • Policies on functioning and structure of markets • International agreements on FDI • Privatisation policy • Trade tariffs and coherence of FDI and trade policies • Tax policy		
II. Economic determinants	A. **Market-seeking**	• Market size and per capita income • Market growth • Access to regional and global markets • Country-specific consumer preferences • Structure of markets
	B. **Resource/ asset-seeking**	• Raw materials • Low-cost unskilled labour • Skilled labour • Technological, innovatory assets as embodied in individuals, firms and clusters • Physical infrastructure (ports, roads, power, telecommunications)
	C. **Efficiency-seeking**	• Cost of resources and assets listed under B, adjusted for productivity of labour resources • Other inputs costs, i.e. transport and communication costs to/from and within host economy and costs of other intermediate products • Membership of a regional integration agreement conducive to the establishment of regional corporate networks.
III. Business facilitation • Investment promotion (including image-building and generating-generating activities and services) • Hassle costs (related to corruption and administrative efficiency) • Social amenities (quality of life, etc) • Investment incentives • After-investment services		

(Source: UNCTAD 1998: 91)

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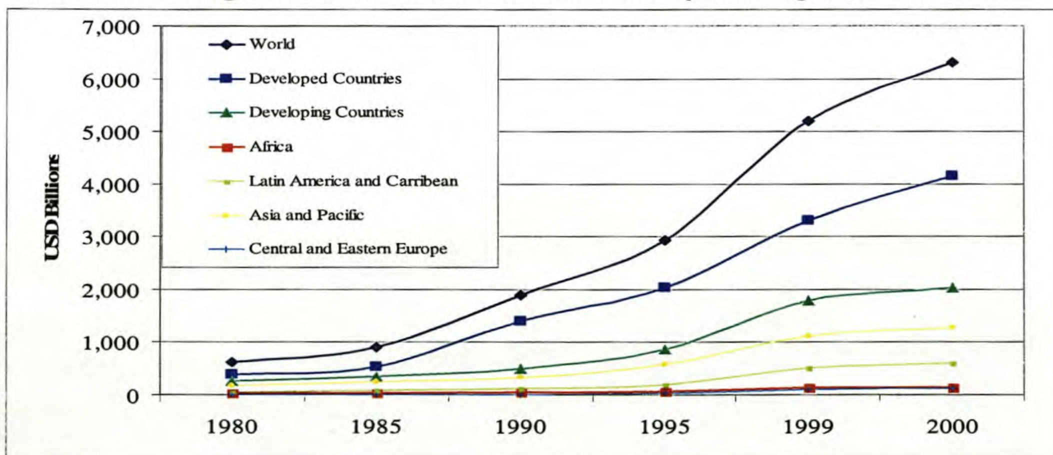
Balaam & Veseth (1996: 341, 353) hold that FDI activity is concentrated mainly in the developed countries. It is estimated that 95% of FDI originates from the developed countries, and 80% of that is directed at other developed economies. The reason for this is that developed nations have large domestic markets, modern infrastructures, large pools of educated workers, stable political environments and that they rarely impose restrictions on the activities of MNCs. Historically, 70% of outbound FDI from Triad countries (USA, European Union and Japan) is directed at the Triad. The increase in FDI flows to developing countries is directed mostly at a small group of countries, primarily NICs and China (Dunning & Narula 1997: 5). Table 2.3 below illustrates the increase in global FDI inward stock from 1980 to 2000. It can be seen that FDI receipts for the developed countries far exceed developing countries. Also, the Latin American and Caribbean as well as the Asia and Pacific regions have successfully increased their FDI receipts, while Africa remains largely excluded.

Table 2.3: Foreign Direct Investment inward stock by host region, 1980-2000



(Source: Adapted from Akinkugbe 2003: 4)

2.2.2 Foreign direct investment in Africa

Research has shown that MNCs are interested mainly in large and growing markets to expand their operations. African economies are mostly small with poor projections for growth. Only a few countries with a wealth of resources have been able to increase their FDI receipts in recent years (Gold 1994: 144). The main reason for this poor

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performance can be ascribed to political and economic instability, poor legal systems for enforcing commercial contracts, security threats to property and personnel, poor public services and closed trade regimes (OECD 2002: 8). Other factors often cited are inadequate infrastructure and human capital, low rates of return on investments, a chronic shortage of foreign exchange, overvalued exchange rates, huge domestic and external debt burdens, and inefficient financial sectors on which to raise capital for investment (UN 1995: 4-6).

During the last decade some countries like South Africa, Botswana, Equatorial Guinea, Ghana, Mozambique, Namibia, Tunisia and Uganda have outperformed other African countries. This has been due to the improvement of regulatory FDI frameworks as well as macroeconomic and political stability, fast-growing national markets, access to large regional markets and significant privatisation programmes (UNCTAD 1998: 23).

The United Nations Conference on Trade and Development (UNCTAD) has put out an Inward Performance Index, which compares the ratio of a country's share in global FDI to its share in global Gross Domestic Product (GDP). This index value implies that a country's share of global FDI is equal to that country's share of world GDP and this measure can be used to indicate MNC activity in the domestic economy. An index value higher than one attracts more FDI than may be expected on the basis of its GDP. This ratio has increased markedly for developing countries, which export manufactured goods (Dunning & Narula 1997: 5). An increase in FDI to some developing countries may partly be in response to privatisation programmes undertaken as part of IMF Structural Adjustment Programmes (SAPs)[1] (Dunning & Narula 1997: 6-7).

In terms of changes over the past decade, Africa experienced a fall in its score (from 0.8 during 1988-1990 to 0.5 during 1998-2000), while Latin America improved significantly from 0.9 to 1.4. The EU, USA, and East and South scored much higher than one and even the emerging Central and Eastern Europe scored close to one. On average, Africa's share of developing countries inflows has more than halved from 1986

[1] The aims of a Structural Adjustment Programme (SAP) are to restore financial credibility to an overstretched public sector and to create an enabling environment for accelerated economic growth. SAPs include limits on public sector spending, adjustments to foreign exchange and real interests rates, reducing factor and price controls and the reform of state-owned enterprises (Internet 6).

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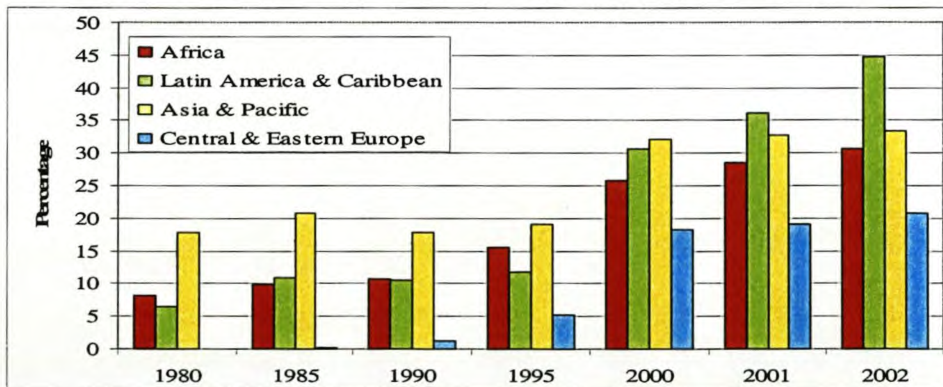
to 1990 and 1991 to 1996 (UNCTAD 1997: 16). Although Africa has historically received less than 5% of global FDI, compared to its economic size, the amount of FDI to Africa was similar to that received by the other developing countries (UNCTAD 2002a: 7).

Table 2.4 illustrates the FDI inward stock as a percentage of GDP for four developing country regions: Africa; Latin America and the Caribbean; Asia and the Pacific; and Central and Eastern Europe. Although Table 2.3 showed Africa's marginal FDI receipts in US dollar amounts compared to the Latin American and Caribbean , and Asian and Pacific countries, this ratio illustrates that relative to GDP size, Africa has been more or less equally successful in attracting FDI. The difference in value terms can be ascribed to Africa's small and underdeveloped markets, and therefore smaller GDPs and less FDI.

Table 2.4: FDI inward stock as a percentage of GDP, 1980-2002



(Source: UNCTAD 2001b: 280-286)

2.2.3 Trends in Privatisation

According to the OECD, the period from 1990 to 2000 saw an extraordinary amount of privatisation taking place globally, exceeding USD900 billion. The main motivation for privatisation by nation-states is to reduce the range of activities of the government in cases where it has become inefficient and consumes too many resources. The private sector is then invited to operate those enterprises more efficiently. Privatisation benefits the government, SOEs, the private sector, consumers and the foreign investors, if the

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process is implemented and managed properly. SOEs are reformed through the introduction of new technologies, better management, and improved training of personnel that reduces costs and improves the efficiency of the operations. Government benefits by no longer being required to subsidise the privatised SOEs, and revenues are earned from the sales of SOEs. The new sources of investment capital introduced by privatisation are important in several ways: in many developing countries, sufficient capital for infrastructure development cannot be raised domestically. Privatisation programmes alleviate this problem by assisting in the development of the domestic capital market as a source of financing. Furthermore; government has more finances available for social programmes through sales revenues and the reduction of subsidies. Local entrepreneurs in the domestic private sector may now engage in the newly privatised markets, resulting in increased competition, lower prices and better services for consumers (Sullivan, Rogers & Shkolnikov 2004: 1-5).

The renewed interest by MNCs in privatisation has been sparked by several factors, the main one being to enter new markets and acquire the SOE's market share. A country that originally holds little appeal for foreign investors may become very attractive when a privatisation programme is considered from a long-term opportunity and growth perspective. The acquisition of existing operations may also be safer and cheaper than a greenfield investment, depending on issues such as the debt of the SOE and restructuring costs (Sullivan, Rogers & Shkolnikov 2004: 5-6).

2.3 Bargaining between MNCs and nation-states

Negotiation is a basic political or decision-making process. Elgström (1987: 136) defines a bargaining situation thus "there exists a reciprocal relationship of dependence between two or more parties, including elements of cooperation and conflict". The parties by themselves cannot control the outcome of the process and have to negotiate to find an acceptable solution. All parties have to be of the opinion that it is advantageous to reach an agreement. Kapoor (1974: 121) expands Elgström's definition by highlighting the four characteristics of negotiation: "common interests (something to negotiate for); conflicting interests (something to negotiate about); compromise (give

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and take); and criteria or objectives (determining the objective and the criteria for its achievement)". A country's approach to negotiation is influenced by its political, economical, social and cultural systems. Negandhi (1980: 535) explains that the expectations between nation-states and MNCs are inherently different, because of the different environments in which they operate. The differences in relative bargaining power between nation-states and MNCs are derived from their resources and capabilities.

Moran (1987: 109) and Tarzi (1991: 243) describe four project characteristics that are important in evaluating the bargaining positions of nation-states and firms. Firstly, the greater the absolute investment amount, the more favourable entry the foreign investor receives. Secondly, the more competing investors there are and the more alternatives the host country has, the greater the bargaining strength of the nation-state. Conversely, lack of competition strengthens the MNCs position. Thirdly, the level of technological complexity influences the bargaining strength between parties. Stable or mature technology usually reduces the investor's bargaining strength, whereas dynamic, high technology sectors invariably favour the MNC. Fourthly, the marketing and operational complexity of the subsidiary affects MNC bargaining strength. Companies whose sales are determined by strong brand loyalty occupy a strong position in relation to the host.

Table 2.5 below provides a high-level identification of the important variables that affect power in the bargaining relationship between nation-states and MNCs.

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Table 2.5: Factors influencing the relative bargaining position

	Advantage held by	Likely regulation
Factor		
Dependence on local resources	Government	High
Dependence on local markets	Government	High
Political 'salience'	Government	High
Industry structure		
Many competitors	Government (at entry)	Variable by product
Global 'linkage'	Firm	Low
Business dependent on:		
Proprietary knowledge	Firm	Low
Highly complex process	Firm	Low
Labour intensity	Government	Low-high
Capital intensity	Firm	High
Marketing skills	Firm	Low
Mobility of facilities	Firm	Low
Cost/efficiency	Firm	Indeterminate
International information	Firm	Variable by product

(Source: Stopford & Strange 1991: 27)

2.3.1 Host country bargaining

Tarzi (1991: 237-238) explains that developing countries in their economic relationship with MNCs have a critical advantage, namely control over access to their territory. This access includes domestic markets, local labour, and other resources that MNCs require. Kobrin (1987: 621) adds that the major power resource of the host country is access to the domestic market, because its market and economic conditions determine its size, its level of development, and its potential for future growth. Walters & Blake (1992: 118-119) support this view and assert that MNCs tend to invest in the most profitable and growth-oriented industries. As a result, host countries perceive that important sections of their economy become increasingly subject to the control of MNCs rather than domestic firms. The host state fears that its influence may be limited to jointly make critical decisions that affect the affiliate, since the control of MNCs resides in the corporate headquarters located in a foreign country.

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The autonomy of the nation-state is also limited since its manufactured output has value only in conjunction with the rest of the international economic system. Therefore, interdependence between countries constrains nation-state economic autonomy (Kobrin 1987: 618). Furthermore, developing countries with external account or debt problems may be restricted in their actions by their reliance on FDI and the often-associated requirements enforced by international financial organisations or commercial banks, e.g. IMF, World Bank structural adjustment programmes (Kobrin 1987: 622).

The relative power of the government ministries involved in bargaining and the relationships among them, affect the nation-state's ability to carry out its policies. Bureaucratic conflict within the nation-state not only makes policy implementation more difficult, but also makes it possible for MNCs to play ministries off against each other. In addition, the nation-state's bargaining power will depend on its administrative ability to monitor and control foreign capital, as well as the knowledge government officials has of a particular industry (Bennet & Sharpe 1985: 86).

The more national alternatives available to nation-states for meeting the demands of investment capital, technology or access to export markets, the less need there is for the MNCs investment and the greater is the nation-state's power. The nation-state's range of alternatives in finding trading partners, lending institutions, or sources of investment are important for its bargaining position (Bennet & Sharpe 1985: 89).

Wells (1977: 73) explains that nation-states implicitly make two kinds of calculations in negotiations. Firstly, from an economic perspective, the government tries to determine what it has to offer or relinquish to attract the foreign investor. The second consideration, from a political perspective, is what terms of entry MNCs have received from other developing countries. Domestic political constraints are problematic for governments. A government may be impeded in its negotiations with foreign investors by unfavourable criticism lobbied by political opposition parties.

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Tarzi (1991: 246) explains that the greatest international constraint faced by governments is their reliance on MNCs for global integration, described as "the flow of raw materials, components, and final products as well as flows of technology, capital and managerial expertise between the units and subsidiaries of a global corporation". MNC strategy is influenced by its goal of global integration to develop complex systems incorporating production and marketing networks to lower costs and expand their scale. Developing countries who are dependent on such complex MNC factors are restricted in their bargaining positions.

Balaam & Veseth (1996: 349) argue that the most important demand by the host country is the degree of linkages between the MNC subsidiaries and the domestic economy. Those MNCs setting up operations for local markets are likely to develop linkages with local firms, although MNCs interested in outsourcing (producing in overseas locations) usually do not develop linkages with local firms. This has led to the development of export processing zones (EPZ) explicitly to attract MNC investment (Walters & Blake 1992: 121).

Stopford & Strange (1991: 155-156) agrees with this view and add that local linkages comprise more than local content requirements only, they also establishe local buyer and supplier relationships. Without these requirements, MNCs may not be motivated to engage the local economy and possibly hamper the efficiency of their international network. On the other hand, the local economy may not be able to accommodate the MNCs requirements.

The host nation's performance requirements for MNCs are usually twofold. Demanding firstly that an increasing share value-added production is done domestically, which includes more local content and the establishment of local linkages in the local economy. Secondly, demanding that MNCs use their global networks to export products and components from the domestic economy (Moran 1988: 9). Stopford & Strange (1991: 154, 158) state that the demand for increasing local linkages aims to

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reduce the cost of imports and to develop the domestic entrepreneurial capacity. However, MNCs will always prefer to manage their international assets without interference from the host nation.

2.3.2 MNC bargaining

Stopford & Strange (1991: 140-143) explain that MNCs take a future orientation towards strategy and are not as "foot-loose" as often described. There are three main factors influencing an MNC's choice of location. Firstly, the cost of investment is determined not only by the financial return of a new local operation, but also by its impact on the rest of the corporate network. MNCs use the lowest market rates for their resource procurement and transfer these within their own networks at marginal cost. This strategy differs totally from that employed by local firms who use national factor costs and import at prevailing world market rates. Secondly, the factors of economic risk and political risk determine location. Economic risk involves local conditions and competitors' actions, both locally and internationally. Increased competition limits the number of businesses and markets that can be financed and managed adequately. Thirdly, global competition limits the geographical spread of business. Generally, preference is given to market size and growth, which is evaluated in terms of political risk. The assessment of an MNC's strength is based on a combination of product and territorial importance.

Kobrin (1987: 619-621) explains that the resource-based bargaining power of an MNC can be deduced from the theory of foreign direct investment. MNCs control firm-specific advantages (FSAs) such as capital, technology, management skills, access to world markets through their networks, a competitive product range, or employment opportunities, which the developing country needs for economic development. The complexity of technology, managerial capabilities and access to export markets are all positively correlated with MNC bargaining power. According to Dunning & Narula (1997:11) managerial capabilities include the organisational skills to manage all activities within the firm, knowledge of supply and distribution markets, the expertise to sell products successfully, and the capacity to make use of information about other

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technologies, markets and organisations. Kobrin (1987: 619-621) goes further and emphasises that MNC bargaining power is not simply derived from its technology or management, but should also be considered relative to the host country's capacities. The administrative capability and specific industry knowledge of the host country must be taken into account. Furthermore, host countries may procure technologies they require internationally, thus strengthening their relative bargaining power.

The nation-state has a greater ability to stipulate a bargaining agreement when the investment is very important to the MNC's operations and it has few alternatives available. Such terms could include ownership arrangements or performance requirements. An MNC will be concerned with the cost and stability of the local labour, the availability or transportation costs of essential materials. Firms looking to serve the domestic market will be more concerned with the size and growth potential of the domestic market and the size of its market share, i.e. monopoly position versus many competitors (Bennett & Sharpe 1985: 88-89).

2.3.3 Competition

Market conditions (degree of competition) faced by MNCs are significantly related to the nature of conflict in bargaining. Essentially, a lack of competition among MNCs decreases the developing country's bargaining position, whereas increased competition raises the host country's bargaining position. Competition between MNCs is usually greater where the host country is used as an export platform for serving external markets, but it tends to be limited for capital-intensive investments designed to serve only the domestic market. Faced with the option of choice between several willing investors, the host nation's decision is extremely important in that, amongst other things, the ability to choose allows the host country to avoid the concentration of investment by MNCs from one dominant home nation (Tarzi 1991: 241).

Many MNCs are found in highly concentrated industries, dominating key economic sectors that are critical to nation-states' economic development. Such oligopolistic practices prevent supply and price competition normally found in competitive industries

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(Tarzi 1991: 237-238). However, MNCs from highly concentrated home markets do not enjoy the same advantageous position in host nations. The reason for this is the 'follow-the-leader' principle. Oligopolistic firms tend to react defensively to foreign investments made by competitors. This pattern can be used to their advantage by developing countries. For example, when one foreign firm from a concentrated industry invests in a particular country, other competitors from the same industry may be keen to follow. Therefore, by accepting one investor, the bargaining nation-state may increase bargaining power as other investors follow (Fagre & Wells 1982: 18-21).

2.3.4 Political salience

The long-term competitive strategies of firms generally do not take into account the short-term domestic political considerations. It is, therefore, the host government's function to balance social and economic forces (Stopford & Strange 1991: 33, 54). The political context within a country affects the bargaining climate, bearing in mind, too, that the government's capacity to create economic welfare reduces the calls for social and political change (Stopford & Strange 1991: 56). This balance is, however, not always possible to accomplish (Kapoor 1974: 125-126). Different interest groups in society will have different aims regarding foreign investment, and the domestic political process may influence who gains control over the outcome (Kobrin 1987: 617).

Moran (1987: 15) believes that interference by interest groups is based on anticipated economic benefits accruing from government intervention. Local business groups may fear the economic threat that an MNC poses. Alternatively, local elites may be willing to partner with foreign companies as their own welfare is tied to the MNCs welfare. Also, local allies are likely to shield the MNC from nationalisation (Moran 1987: 15). MNC subsidiaries operating in an area of strategic importance to the host nation seem to attract the greatest governmental intervention. For instance, subsidiaries with a large number of employees will attract attention to themselves by interest groups such as labour unions (Poynter 1982: 17-19). Negandhi (1980: 529) adds that the labour demands of governments sensitive to employment levels tend to escalate conflict to a national level in the interest of their negotiations.

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2.3.5 Political risk strategies

Another constraint on a host nation's ability to exercise power is the use of political risk strategies by MNCs. Generally, there are four strategies adopted by MNCs: firstly, MNCs sequence the investment trances instead of laying out the whole investment at one time, this gives them a series of bargaining chips to satisfy the government's demand for revenue over a longer period of time. Secondly, MNCs organise their activities in such a way that the host government cannot nationalise the entire operation. Thirdly, MNCs structure their loan agreements in such a way that an abrogation of the agreement by the host government incurs costs onto that government. Finally, cooperating with local partners provides protection for the MNC and the project is less vulnerable to nationalisation (Moran 1987: 12-17).

2.3.6 Technology

The contribution of foreign technology and management knowledge to national development is difficult to assess. Moran (1987: 17-18) states that there is evidence that MNCs from industrialised nations bring production methods from their home countries, especially in an environment of little competition. The affiliates of foreign companies usually follow the same strategy as their parent firms, which usually concentrate on technological improvement rather than on reducing costs or adjusting production methods to suit developing countries' markets. Also, governments may insist on capital-intensive production in a labour-abundant market in the false belief that older technology is inferior.

There is also uncertainty about the benefits of technology transfer to developing countries. Most of the research and development done by MNCs is conducted in the home countries, and it follows that MNCs do not contribute to the host nation's ability to produce new technologies for new products and processes. Tarzi (1991: 246) adds that the royalties charged by MNCs for the use of their technologies further increase the relative vulnerability of the host nation.

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2.3.7 Capital

It would be expected that parent MNCs would desire more ownership and stronger control of large investments. However, developing countries insist on ownership and control in large projects, given the potential impact on the economy. The reality is that the role of capital investment in MNC bargaining strength is ambiguous as there are an increasing number of alternative sources of capital available to developing countries (Fagre & Wells 1982: 15-17). Kobrin (1987: 620) asserts that whether capital serves as a bargaining resource for MNCs is dependent on the ability of the local financial market to raise finances.

2.3.8 Marketing

In industries where marketing skills are complex and products differentiated, MNCs have flexibility to respond to host countries' demands. To counter such demands, firms may develop new products, include new activities, such as exports, integrate more technology, or produce more value-added locally. To produce a larger number of products or exports requires more capital and increased managerial expertise from the MNC. The host nation, for its part, is eager to gain additional economic benefits from an existing investment project and prefers a greater variety of goods to be produced locally, which previously had to be imported (Tarzi 1991: 243; Kobrin 1987: 613).

2.3.9 Ownership and control

The outcome of bargaining between developing countries and MNCs is evaluated in terms of all the agreements that affect ownership, control, and the distribution of economic benefits. MNCs do not have uniform attitudes towards ownership, and these differences are related to the strategies of the enterprises. However, the distributions of

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ownership, control, and benefits are important to both parties (Fagre & Wells 1982: 9-10). Biersteker (1980: 212) defines effective control "in terms of managerial responsibility of financial, technical, and commercial aspects of production, rather than in terms of responsibility for non-critical functions such as labour relations, product distribution, and advertising".

The motivations for host governments to demand local equity involvement include gaining better access to information, monitoring the fees paid for technology and management, regulation of overcharging for production and control over the remittances of profits and capital. A high concentration of foreign ownership may have considerable political impact apart from economic costs (Lecraw 1984: 27).

The link between level of equity and control is not straightforward. Depending on the type of technology transferred, the capabilities of local partners, and government regulations, an MNC may control operations it considers vital, without majority ownership through technical service or licensing agreements. This way, MNCs reduce government intervention in the operation of their affiliates, while at the same time earning profits generated by their firm-specific advantages. All else being equal, the requirement by the MNC for higher levels of equity ownership should increase as the economic ties between the parent and subsidiary decrease (Lecraw 1984: 27-32).

Firms usually demand control or majority ownership of those products in principal markets that are considered central to the firm's success. In these principal markets, conventional forms of FDI bargaining continue, where nation-states demand that firms adapt production to the local environment, a demand usually opposed by firms when they are increasing their linkages into other countries. At the other end of the spectrum, MNCs exit marginal product lines from marginal territories, but exit barriers may hamper this. These exit barriers exist when more is lost than gained through exiting. Exit barriers for firms may include the capital investment that cannot be recovered, expenses and liabilities that are incurred in the exiting process, and firms may not want

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to relinquish their market share to competitors. Nation-states have little power over such decisions but it can be made to work to their advantage. Alternatively, MNCs can use the threat of exiting to obtain a better bargain from the host government (Stopford & Strange 1991: 144-147).

Conclusion

Important changes in the global production structure have altered the relationship between MNCs and nation-states. The transition in the 1970s from the Fordist to Post-Fordist mode of production was driven by the rapid development of new technologies, which emphasised product innovation through flexible manufacturing processes over the price competitiveness of mass production. This emerging global competition forced MNCs to establish integrated international production systems located across the globe, to take advantage of the differences in cost, resources, logistics and markets. Nation-states facilitated this mobility of MNCs by liberalising trade and investment policies to attract FDI and its associated technology and knowledge transfers. Historically, FDI is concentrated in the industrialised nations and Africa remains marginalised, because of its small and underdeveloped markets. However, Africa has been able to increase its FDI receipts from MNCs in recent years through significant privatisation programmes.

Various factors influence the bargaining strength of MNCs and host states, respectively. The host state controls access to its territory and its level of development influences its bargaining strength vis-à-vis MNCs. Governments aim to regulate investment in the public interest and demand that MNCs fulfil certain development objectives, such as the transfer of technology and capital, establishment of linkages with local firms and promotion of exports. MNCs aim to determine the optimal locations for various segments of their production value chains in order to contest global markets effectively. MNCs have several firm-specific advantages that increase their bargaining strength compared to host states, such as control over technology, capital, access to global markets and marketing capabilities. Chapter 3 will illustrate the MNC-host state bargaining relationship in Sub-Saharan African telecommunications privatisation.

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Chapter 3
State-Firm Bargaining over Privatisation in Sub-Saharan Africa

Introduction

This chapter explains the bargaining dynamic between MNCs and developing countries in the privatisation process. Many privatisation programmes in developing countries are aimed at attracting the participation of foreign MNCs with advanced technologies and managerial expertise. Specifically, in the telecommunications industry there is a great reliance on MNCs to improve infrastructure. The historic development of state-owned enterprises and the transition towards privatisation by nation-states in the public provision of utilities is discussed first. Secondly, the trends and the methods used to effect privatisation in developing countries, specifically Sub-Saharan Africa, are examined, followed by a description of host state and MNC bargaining objectives in privatisation. In the fourth section, the impact MNC-host state bargaining has on the outcome of telecommunications privatisation programmes is illustrated.

3.1 Historical background

Poor infrastructure (i.e. telecommunications, electricity, water supply, and transport) is a major obstacle to Sub-Saharan Africa's (SSA) economic development and the region can benefit greatly from privatisation. Inadequate infrastructure impacts negatively on the standards of living of a country and its capability to compete internationally in commerce. Service provision under state-owned monopolies is often burdened with multiple, poorly defined objectives. Furthermore, it has to contend with weak incentives for efficient tariff policies, often favouring the more prosperous sectors at the expense of rural communities. The recruitment decisions of public enterprises often reflect a political desire to create jobs without regard for efficiency (Kerf & Smith 1996: ix). After gaining independence, African governments were often seen to depend on large public sectors to foster economic growth, because of the poor state of domestic private business (Harsch 2000: 8).

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In order to explain why African nations chose development strategies that emphasised heavy government intervention in the economy, one may examine the events occurring in the post-independence era around the 1960s; e.g. public policy formulated to reverse the negative impact of colonialism on economic development and attempts to facilitate economic growth rates comparable to the industrialised nations. At that time, market forces structures were viewed as being monopolised by the industrialised nations and their MNCs, resulting in uneven terms of trade for Africa and therefore not suitable for economic development in an African context. An alternative strategy of "economic self-reliance" was pursued that called for greater government involvement in the economy until such time that the country was able to compete internationally, its economic status having improved. Examples of this policy include import-substitution strategies, pegged interest rates and foreign exchange regimes and a larger role for state-owned enterprises (Internet 6).

Since many African countries lacked private enterprises to facilitate the process of modernisation, international donor finance was often used to finance large public investment projects. The combined effect of Africa's policies of state intervention and a decline in commodity prices in the 1980s saw Africa's economic growth slow down with increasing levels of debt. The weakness of these policies is illustrated by the fact that during the 1980s several African countries were spending in excess of 20% of their export receipts to pay off external debt (Internet 6).

In consultation with the World Bank and International Monetary Fund (IMF), African countries coupled debt rescheduling with Structural Adjustment Programmes (SAPs). In 1990, there were 2 754 SOEs in Africa, 76% of them found in SSA. Looking at the SOEs in SSA it was found in the worst instances that they contributed 35% percent of Gross Domestic Product (GDP), consumed 40% of national investment and were responsible for 35% of formal sector employment, 60% of unpaid domestic credit, 8% of external debt owed by government, and 5% of government spending (Internet 6). By 1998, the World Bank was providing financing to thirty-four African countries to assist in their privatising efforts (Harsch 2000: 10).

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Wallsten (1999: 2-3) states "most developing countries nationalised telecommunications services in the 1960s". Reform of telecommunications industries actually began in the 1980's due to a number of reasons, such as; the very poor performance of state-owned telecommunications monopolies, technological advances reducing the support for telecommunications to be treated as a natural monopoly, to satisfy unmet consumer demand, and a requirement by the multilateral finance institutions as part of structural adjustment programmes. Telecommunications reform usually involves three components: "privatising the state-owned monopoly provider, introducing competition, and creating an independent regulatory administration". Gebreab (2002: 7) considers that "telecommunications in Africa can be characterised by low penetration, poor quality and unreliability". He identifies "the following as the main reasons for underdevelopment in Africa: (i) lack of investment, (ii) investment inefficiencies, (iii) inadequate private sector involvement, (iv) foreign exchange scarcity, (v) poor management incentives, and (vi) insufficient regional development".

The aim of many developing countries in liberalising their telecommunications regimes is to access better technologies produced by MNCs in industrialised nations. Technology information cannot be exchanged easily, because the buyer is not in possession of the product and thus is not able to price it properly. MNCs base their survival on "internalising" these differences in the market, along with other cross-border transaction costs. The firm is able keep control and earn revenue from its technology through FDI, while the country gets the advantage of using that technology. FDI may also be motivated to increase the MNC's market power through its size together with its technological capabilities. Larger market shares significantly increase profits, especially in the fast growing telecommunications sectors that are traditionally oligopolistic in nature. Telecommunications has become a particularly dynamic sector for privatisation (Taka 2001: 2-3). In the African context, the outdated technology of telephone networks, and use by only a small section of the population are significant drawbacks. African governments have realised that new technologies and investment can be sourced from MNCs, thus assisting in the development of their networks by selling off stakes in the incumbent networks (Harsch 2000: 9).

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3.2 Privatisation trends in developing countries

It has been estimated that in the early 1990s, the sum of annual losses suffered through wastage and poor pricing were equal to the annual investment made in infrastructure in developing countries. In the same decade, many counties began to bring in the private sector to participate in infrastructure through financing and management. From 1990 to 2001, developing countries attracted approximately USD775 billion in 2 500 infrastructure projects through private participation. By 2001, 132 developing countries moved to private participation in infrastructure. The largest concentration was in the Latin American and the Caribbean region, the bulk being in the telecommunications and power sectors (Harris 2003: 1-6).

In SSA, more than 3 000 privatisation programmes had been undertaken by 1998, mostly in Angola, Ghana, Guinea, Kenya, Mozambique, Tanzania, and Zambia. However, the financial gain was relatively small, because of the small size of the enterprises that were divested, and represented only 3% of the earnings that accrued to developing countries for the period 1990 to 1999 (Kikeri & Nellis 2002; 4).

Sub-Saharan Africa's share of global annual investment in telecommunications by private investors grew significantly in the last decade, from an almost zero base in 1990 to 10% in 2001. Most of this expansion occurred in the cellular sector, while thirteen countries privatised their national operators, thirty-nine countries introduced private participation over the same the period. Telecommunications was also responsible for the greatest amount of investment and number of projects during this time. The introduction of cellular telecommunications in Africa disrupted the monopoly enjoyed by African incumbent operators. Essentially, there are two methods of establishing private participation in telecommunications. Firstly, the thirteen counties mentioned above, which included Cote d'Ivoire, Ghana, Senegal and South Africa, transferred parts of the national network to the private sector and introduced cellular phone services through greenfield investments. The other thirty-nine countries also introduced competition in the cellular industry through greenfield projects, but left their national fixed-line operators untouched. Entry costs were reduced by technological advances,

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which resulted in the transformation of the market structure and nature of competition (World Bank 2003: 82-83, 116). Generally, the privatisation of state-owned telecommunications operations in Africa and South America occurred through the sale of a large equity share to a US or European MNC (Taka 2001: 4-5).

Table 3.1 illustrates total private participation in infrastructure projects in developing countries; private investment in infrastructure broken down per state-owned utility sectors; and private participation in telecommunications privatisation in developing regions for the period 1990 to 2001. Globally, Sub-Saharan Africa (SSA) has been marginalised from private investment in infrastructure, recording only 3% of cumulative investment. The telecommunications industry has attracted the most investment of all previously state-owned utilities in all developing regions. Private participation in SSA telecommunications privatisation has taken place in thirty-nine countries involving 100 projects.

Table 3. 1: Private participation in infrastructure projects, 1990-2001

Total private investment in infrastructure			Private investment in telecommunications				Private investment in infrastructure per sector		
Region	Investment (2001 USD billions)	Cumulative Percentage	Countries	Projects	Investment (2001 USD billions)	Cumulative Percentage	Sectors	Investment (2001 USD billions)	Cumulative Percentage
East Asia and Pacific	211	28%	15	65	65	20%	Airports	13	2%
Europe and Central Asia	97	13%	25	296	65	20%	Ports	18	2%
Latin America and Caribbean	361	48%	23	120	163	49%	Railways	29	4%
Middle East and North Africa	23	3%	8	18	8	2%	Natural Gas	34	5%
South Asia	40	5%	5	52	15	4%	Water	40	5%
Sub-Saharan Africa	23	3%	39	100	16	5%	Roads	76	10%
	755				331		Electricity	213	28%
							Telecoms.	331	44%

(Source: Adapted from Harris 2003: 6-7; World Bank 2003: 122)

3.3 Methods of privatisation

3.3.1 Concessions / Build, Own and Transfer (BOT)

Kerf & Smith (1996: 14) describe a concession as the process by which "the private operator manages the infrastructure facility, operates it at its own commercial risk and accepts investment obligations from the government, whether to build a new facility,

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expand or rehabilitate an existing facility". This model is common where the government wants to attract investment from the private sector, but does not to want to give up its ownership. These contracts have a fixed term and involve the transfer of assets back to the state at the end of the term when it may be opened to a competitive bidding process again.

3.3.2 Demonopolisation and new entry / Build, Own and Operate (BOO)

The government may choose to relinquish monopoly restrictions of an industry and grant private business access to the market. The new participant may be complementary or in competition to the existing public enterprise. The incumbent enterprise remains under governmental control and thus may reduce the benefits of introducing competition. The intention is that the presence of competition would indirectly improve the performance of the public enterprise (Kerf & Smith 1996: 15-16).

3.3.3 Divestiture

Kerf & Smith (1996: 14) describe divestiture as "the sale of the government's shares in a state-owned enterprise" – and illustrates the government's dedication to private sector involvement in infrastructure delivery. This approach is becoming more widespread in telecommunications, energy and airline industries around the world (Kerf & Smith 1996: 17). White & Bhatia (1998: 10) expand on this definition by including the "sales of minority government-held shares, transfers of shares or assets, public enterprise mergers, official liquidations and asset sales through means other than liquidation".

Table 3.2 identifies the methods employed in privatisation and the potential benefits that are usually associated with each method.

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Table 3.2: The main forms and potential benefits of infrastructure privatisation

Potential Benefits	Management contracts	Lease	Concession/ Build, Own, Transfer (BOT)	Demonopolise/ Build, Own, Operate (BOO)	Divestiture
Management expertise	✓	✓	✓	✓	✓
Tariff discipline		✓	✓	✓	✓
Access to private capital			✓	✓	✓
Capital market development			✓	✓	✓
Potential capital revenues			*greenfield investments*		✓

(Source: Adapted from Kerf & Smith 1996: 10)

Table 3.3 demonstrates that Sub-Saharan Africa tends to use greenfield projects (BOT or BOO) to increase capacity for all infrastructure utilities. This type of project, mainly used in mobile telecommunications, led private investment in monetary value and number of projects (World Bank 2003: 81). Annexure A, identifies the telecommunications privatisation projects in SSA that involve foreign MNCs. The annexure was compiled from the World Bank Private Participation in Infrastructure (PPI) database. From the schedule it can also be seen that greenfield investments and divestiture are the most popular forms of privatisation in telecommunications.

Table 3.3: Infrastructure projects with private participation by sector and type in Sub-Saharan Africa, 1990-2001

Sector	Management and lease contracts	Concessions (BOT)	Demonopolise (BOO)	Divestiture	Total
Electricity	5	5	16	3	29
Electricty and water and sewage	2	4	0	1	7
Natural gas transmission and distribution	0	0	1	1	2
Telecommunications	0	0	85	15	100
Transport	11	14	10	3	38
Water and sewage	7	2	1	0	10
Total	25	25	113	23	**186**

(Source: Adapted from World Bank 2003: 89)

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3.4 Project assessment

The viability of a project is assessed by the return on investment ratio, which takes the total expected cash flow into consideration. This includes dividends, royalties, management fees, trademark fees and also the impact on profitability the investment will have on the whole organisation, which likely is located elsewhere. Investment is probable when the project produces returns to commensurate the cost of capital and the risk exposure taken. The more risk involved in a project, the higher the rates of return that would be required. Calculating return on capital is often difficult. For example, it is difficult to assess financially all the earnings and expenditures of a project. Further, to value the cost of appropriate risk premium for the cost of capital such as the possibility of political risk or economic risk, determined by the devaluation of the currency, exchange controls, or new state regulation in the future, may prove a complex task (Stopford & Strange 1991: 150-151).

Governments determine the viability of a project in terms of what it contributes to the country, referred to as the "economic or social rate of return". The firm's assessment of prices and expenses may be incorrect, because of the government's intervention in the market or deficiencies in the market. For example, price levels are influenced by the tariff regime faced by the firm, and costs could be miscalculated due to subsidies. The government will try to determine a "hurdle rate" to benchmark that the project represents the best alternative use of national resources. These calculations will determine if project returns are acceptable to both parties. If so, they will then bargain to share the benefits between them. The firm's assessment is in terms of the organisation as a whole, which may be global in nature, whereas the government assesses only the local impact. Increasing pressure on governments to industrialise may see them sanctioning projects that come at a high cost, especially in the early stages of industrialisation or in cases of high indebtedness (Stopford & Strange 1991: 151-154). The telecommunications sector contributes to the social and economic development of a country, and such the governments, will usually aim to expand access to the telecommunications infrastructure, given its poor service levels. On the other hand, private enterprises will focus on the areas that are most lucrative and therefore cannot be depended upon to support the developmental goal of universal access to the entire

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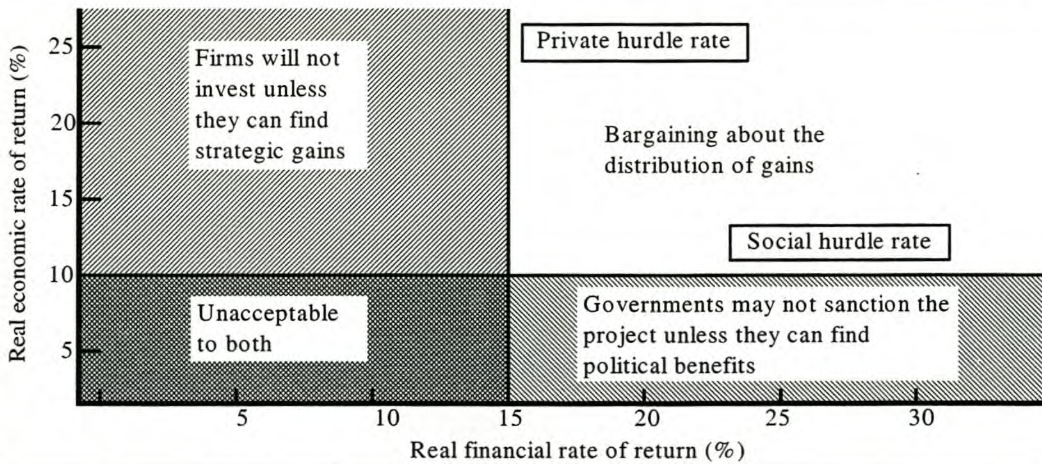
population. Therefore, there remains an important regulatory role for the state in telecommunications (Makhaya & Roberts 2002: 6-7). Table 3.4 graphically illustrates the preceding discussion about the bargaining range for firms and nation-states, which is determined by their required rates of return from the project.

Table 3.4: Estimating the project returns precedes the bargaining



(Source: Stopford & Strange 1991: 153)

3.5 Host country objectives in privatisation

Haggarty, Shirly & Wallsten (2003: 13) list three conditions to be met for reform to be possible: (i) "it is politically desirable, in that the political benefits from reform are greater than the political costs; (ii) it is politically feasible, meaning reform can be implemented by overcoming opposition, and; (iii) it is credible to investors, workers and other actors". The major motivations for privatisation have been; the need to develop the private sector by reducing state involvement in the economy (a requirement for World Bank and IMF financial support), the necessity to earn revenues, sustaining employment, maintaining competitiveness and expanding ownership (White & Bhatia 1998: 27-31).

The benefits of privatisation follow from a fundamental change in the institutional relationship between state-owned enterprises (SOEs) and government. The SOE moves away from the direct control and political influence of the government. The

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managements of SOEs have limited power to negotiate lasting tariff and policy undertakings from government, whereas private investors may hold back or remove investment until the government agrees to its obligations. Similarly, the government can gain more control by removing or substituting the private participants with competitors (Kerf & Smith 1996: 6-7).

The privatisation of infrastructure offers various benefits: firstly, there is increased efficiency of investment, management and operation. Private firms will require reliable assurances from the government to the imposition of tariff levels that will recoup costs, so ensuring that their investments will earn the required financial returns. In order to maximise profitability, private firms will also have a strong incentive to contain costs and increase productivity. This is achieved by containing the costs of new projects, reducing the number of staff, the introduction of new technologies and processes, and improving invoicing and collection procedures. Countries can acquire new technologies and management expertise by permitting private participation in infrastructure. This is particularly important in SSA countries, which do not have the requisite skilled resources. Secondly, governments can gain access to private finance. Private firms raise their own funds and invest capital in the venture when they are confident of good management and predictable profits (Kerf & Smith 1996:7-8).

Thirdly, infrastructure privatisation allows governments to focus on their major responsibilities such as economic and social development, without the necessity of having to manage SOEs. This is especially helpful when governments do not have capability or necessary human resources in place. Fourthly, as a result of the investment that privatisation introduces, public spending and debt can be reduced. For instance, the proceeds earned from divestiture may be used to service public debt. Also, when an infrastructure venture operates economically, it provides continual taxation income, in contrast to the large public expenditure usually incurred in SOEs. Fifthly, the large and predictable cash flows from properly managed infrastructure projects allow for the development of capital markets where debt and equity instruments are traded domestically. Capital market instruments are sought after by institutional investors and may also encourage flight capital to return to the country. Sixthly, experience from

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reforming economies in Latin America and Eastern Europe shows that infrastructure privatisation is a catalyst for large inflows of FDI. Lastly, the short-tem political pressures faced by governments in privatisation are lessened, such as labour redundancies and the relinquishing of control of important sectors of the economy, when a government illustrates that it is dedicated to proper financial administration, well-functioning policies and promoting private sector activity (Kerf & Smith 1996:7-10).

During the 1960s and 1970s most African countries restricted FDI in certain sectors and limited participation to a minority share of equity. In recent years the investment regimes have been liberalised. Despite these liberalisations, uncertainties surrounding the legal environment, the banking system, and the quality of the infrastructure persist for potential foreign investors (White & Bhatia 1998: 67). For the successful implementation of privatisation, it is important to define clear regulatory rules for the bidding process, which sectors are open for participation, which governmental entities may award contracts, and the contractual and pricing terms (Kerf & Smith 1996: 35-38).

Traditionally, price regulation is intended to protect the consumer from being exploited by a monopoly. However, governments may interfere with infrastructure price regulation for short-term political gain (Kerf & Smith 1996: 38). The advantage of a regulatory framework is that it sets out clear rules that providing clarity for investor and officials and reduces the possibility of corruption. This regulatory capacity requires improved administration and monitoring capabilities from governments, which may lack professional knowledge in areas such as law, technology, health and safety, or environmental standards. The creation of independent regulatory agencies assists in the development of necessary technical capability, which usually enjoys legal protection in preventing direct political influence and is subject to its own system of accountability. In Africa the development of independent regulators started only in recent years, mainly in the telecommunications sector (Kerf & Smith 1996: 35, 40-42). Experience has

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shown that when a legal framework is in place to support privatisation, prior to commencement of the process, it assists greatly in the successful implementation of the programme, reduces public opposition and creates the required institutional capacity (White & Bhatia 1998: 65-66).

On the issue of competition many activities in SSA have long been restricted to state-owned monopolies with a single enterprise undertaking all stages of production. These arrangements were thought to be justified because of the "natural monopoly" characteristics of these industries. A natural monopoly is found in a sector with high fixed costs and economies of scale, meaning that only the largest and most cost-effective firm will survive. In the case of telecommunications, the high fixed costs of network investments are an effective barrier of entry for the incumbent operator (Achterberg 2000: 6,14). It is usulaly more difficult to increase competition in infrastructure, because it tends to be a natural monopoly. However, the introduction of competition is possible in areas such as cellular and long-distance telephony. If additional competitors cannot be introduced into a market, increased competition can still be created for the market by making contracts of a predefined time frame available through a competitive tender process (Kerf & Smith 1996: 7). The small size of many African markets is another reason why the introduction of successful competition is not possible. Also, international investors may insist on monopoly rights to compensate for the risks of entering new markets (Kerf & Smith 1996: 37).

On the issue of ownership and control many SSA countries claim that privatisation aims to broaden ownership as this satisfies the national aspirations of advancing economic participation and also increases political acceptance of privatisation. Given the importance of SOEs in Africa in the post-independence era, it is understandably regarded as public property. It is a representation of sovereignty and there remains strong support for government ownership, thus it would be more acceptable to sell it to a domestic group rather than to foreigners. However, the public's assessment of an SOE may overvalue its true performance and worth. Governments may be either unaware or unwilling to let the public know how poorly these enterprises have been functioning. Although a political aim may be to widen ownership domestically, foreign

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strategic partners introduce new investments, established managerial skills, new technology, and market access (White & Bhatia 1998: 31-32). Public resistance to privatisation may be reduced when shares are issued for sale to the public. In this way, greater public involvement is created, with an interest in making sure that the government maintains its commitments to profitable tariff levels and appropriate policies (Kerf & Smith 1996: 8-9).

3.6 MNC objectives in privatisation in Sub-Saharan Africa

The four main challenges to privatisation in SSA are, firstly, concerns over market size, affordability and payment risks; secondly, the establishment of adequate legal and regulatory frameworks; thirdly, mobilising private investment finance; and fourthly, dealing with non-commercial risk, i.e. political risk strategies (Kerf & Smith 1996: ix-xii).

From a commercial perspective, the size of the market is determined not by the size of the population, but by the number of potential customers. Evaluating market size from a commercial perspective of recovering costs based on demand and credit worthiness of the consumers is often difficult in SSA countries, especially when services were subsidised in the past and poor management of accounts by public enterprises was prevalent. Further, poor economic development and low-income distribution of the population raises doubts as to the viability of the consumer base. A positive attribute in the assessment process is that the poor distribution of basic utilities such as telecommunications and electricity may suggest opportunities for future expansion (Kerf & Smith 1996: 21-22).

The assessment of market size for telecommunications in Africa has been positive for investors in recent times. Telecommunications have traditionally been less subsided than other utilities and the cellular telephone market has found that a large part of the population is prepared and capable to pay for dependable telephone services. Where domestic markets are too small, cross-border projects may increase the potential market size (Kerf & Smith 1996: 21-22). One such regional development has been the

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establishment of the Telecommunications Regulators Association of Southern Africa (TRASA), which is responsible for complementing telecommunications regulations between Southern African Development Community (SADC) member states (Li, Qiang & Xu 1998: 8).

On the issue of affordability, private investment requires that tariffs recoup the full cost of service delivery. If the tariffs do not cover the full costs then the shortfall has to be funded through taxation. Experience has shown that SSA governments cannot afford new investment and maintenance due to a lack of financing. It is also probable that price levels are higher under a poorly managed public enterprise with inflated cost structures than would be the case with a well-organised provider with tariffs that cover full costs. Private operators can save costs by reducing over-staffing and improving collection practices rather than increasing tariffs. If the calculated full price is politically unacceptable to the government it can subsidise the private operator for the difference between the tariff and full cost (Kerf & Smith 1996: 24-26).

Another issue of affordability is the argument that private capital costs more than public capital and that this will lead to higher prices for consumers. It is true that private entities borrow at higher rates than the sovereign borrowing rate, but the difference between the private and public borrowing rates is that the tax-paying public carries the liability of public sector projects. In private projects with cost-covering prices these risks are borne by consumers instead of the general public. If a government could borrow at a lower rate than the private sector, it would be advantageous for it to provide credit to the whole economy, and not only to infrastructure (Harris 2003: 25). On the issue of payment risk, in many SSA countries the perception continues that the state provides free utility service and there is a culture of non-payment. The introduction of a private operator who is enabled to discontinue service delivery to non-payers has proved effective in the collection of payments. Under public ownership it is often politically unacceptable to disconnect the poorer segments of the population. However, the private operator may still have in difficulty collecting from government customers because their functions cannot be interrupted (Kerf & Smith 1996: 26-31).

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The main motivation for MNCs in the telecommunications industry is obviously to increase their income from their technological resources and the opportunities for expansion into new markets in Africa. The low levels of service provision suggest good potential for market development. The profitability of potential markets is determined not only by servicing more previously excluded areas, but also increasing the variety of services available to household and corporate customers. MNCs are well suited to do this through their scope of products and services while operating the network. This enables smaller domestic firms to develop their own capacities to provide complementary products and services, if arrangements are in place to grant access to that network. The advantages of introducing new technologies will be increased if both local and international companies may engage in value-added network services without restriction, promoting competition and choice (Taka 2001: 10).

3.7 Political risk strategies

Infrastructure investments are usually substantial, capital intensive and fixed in their location. Besides the risks normally linked to SSA, such as war, civil unrest or expropriation, there are also other non-commercial risks too. Tariff regulation is often at the centre of regulatory frameworks. In this context, SSA with its tradition of subsidising prices, gives rise to concern amongst foreign investors that the government may retract pricing agreements in favour of political goals. But this risk is not equal across all industries and investors are likely to seek out certain industries in preference to others. For instance, the tariffs for telecommunications, ports, freight transport and bulk supply of water are usually less politically sensitive than for retail electricity, water and passenger transport. The investor may also reduce the risk of an immobile investment by adopting more transportable technologies, such as cellular technology instead of fixed line (Kerf & Smith 1996: 47-52).

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Large infrastructure investments often have financial commitments to service in foreign currencies, to suppliers, lenders and shareholders. The income from domestic projects is often in local currency and the investor will insist on being able to convert and to transfer the foreign exchange. This is resolved in many countries with restrictive foreign exchange regimes by granting foreign investors the exemption to take funds out of the country (Kerf & Smith 1996: 50-51).

Going into partnership with the domestic private sector may offer support to the foreign investor. For instance, a local partner will know the business environment better and can also assist in securing local finance, decreasing the project's foreign exchange risk. It may also be less likely that a government will interfere negatively with the management of the project or break its regulatory obligations if there is participation by local parties. In this respect, public share offerings and investments by insurance or pension funds may be a way to facilitate greater participation from the population to ensure the project is kept profitable (Kerf & Smith 1996: 52-53).

Another strategy to reduce political interference is to introduce new technologies and increase the share of local employees. Finally, entering into partnership with the government is common in public-private joint ventures, an advantageous strategy for the MNC as the government's involvement may facilitate the project considerably. The government in this case has a financial interest in the success of the project and is less likely to break its commitments. Government participation may also reduce public opposition to foreign participation (Kerf & Smith 1996: 53-54).

3.8 The impact of privatisation in telecommunications

Concerning the general impact of privatisation across all infrastructure sectors, evidence suggests that in many cases private provision is better than the public provision of services. The private sector's technical and managerial expertise, combined with more sustainable pricing policies and better financial discipline, provide more resources for investing in expansion than under public provision. The greatest gains come through increased investments to meet increasing demand in serving previously unattended consumers. Private participation has been able to improve efficiency through the

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introduction of incentives to reduce wasteful costs and to collect revenues. Some of the largest gains have been in the telecommunication industry where the main driver for improved efficiency has been competition. Improving the self-sustainability of utilities can reduce previously large governmental subsidies (Harris 2003: 17-22).

Private provision also gives governments the opportunity to raise revenues through proceeds from divestiture, and license and concession fees. Additionally, established private participation schemes have a higher coverage of poor households than publicly owned utilities (Harris 2003: 24-26). These results are supported by comprehensive research conducted by Kikeri & Nellis (2002), which illustrates the importance of private ownership for effective competition. There is strong evidence that private ownership produces more restructuring than state ownership in almost all developing countries. It illustrates that privatisation improves the firms' financial and operating performance in the majority of cases. Boubakri & Cosset (1999) concluded that from a sample of 107 companies from 25 developing countries in 26 industries, newly privatised firms exhibit significant increases in profitability, operating efficiency, capital spending, real sales, total employment and dividends. Furthermore, privatisation does not necessarily lead to a decline in employment levels. It can be inferred that higher levels of investment and efficiency lead to greater output and employment.

Research on cellular technologies in 41 African countries from 1987 to 2000, undertaken by Gebreab (2002), shows that telecommunications markets with two or more competitors grew almost twice as fast as monopoly markets. Fink, Mattoo & Rathindran (2002) researched the effects of privatisation in the telecommunication sectors of 86 developing countries from 1985 to 1999. They found that the number of mainlines per population (i.e. teledensity) and labour productivity increased significantly in telecommunications markets with privatised incumbents, extra competitors and separate regulators, compared to countries with little or no reform. Also, the succession in which new competitors are introduced to markets had an effect on sector performance. Introducing competition after the national operator had been privatised led to lower teledensity than when privatisation was undertaken while introducing new competitors at the same time. These results indicate that the

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exclusivity period sometimes given to privatised organisations might be harmful to the process of reform, even when competitors are introduced at a later stage.

Wallsten (1999) conducted empirical research on telecommunications privatisation in 30 countries in Africa and Latin America from 1984 to 1997. The results indicated that on its own, privatisation leads to job losses, but the introduction of competition increased employment levels, which illustrates that additional investment creates more jobs. Privatisation and the subsequent introduction of competition by itself were found to reduce main line penetration and connection capacity. Therefore, without a regulator there is no incentive to prevent monopolistic and uncompetitive practices. However, Wallsten also found that the presence of a strong regulator and competition resulted in increased mainline penetration, more payphones, increased connection capacity, increased labour efficiency and lower prices for calls. Therefore, it is important that there is a regulator to stimulate competition, with the capacity to enforce rules for fair competition. Regulators' functions would govern the structure of the markets, the requirements for market entry and the stipulations of access to the monopoly network facilities (Makhaya & Roberts 2002: 4-5). Furthermore, Wallsten (2002) tested a telecommunications sample of 200 countries from 1985 to 1999 to determine whether the creation of an institutional framework before privatisation would promote competition. He found that countries that established separate regulatory authorities prior to privatisation saw increased telecommunications investment, fixed telephone penetration and cellular concentration, compared to countries that did not. Moreover, it was established that investors were willing to pay more for telecommunications firms in countries with an established regulatory authority, because investment risks are greater where regulatory rules are unclear.

In a study of telecommunications in 167 countries, Li, Qiang & Xu (1998) found that in virtually all countries there is a ministry and/or regulator responsible for a number of functions such as; the telephone numbering plan, tariff approvals, technical standards, interconnection rates, mechanisms for settling disputes, frequency allocation, monitoring service quality, and the setting up of license fees and licensing. Li & Xu (2002) used a data set of 166 countries to compare the impact of privatisation and

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competition in the telecommunications sector. They found that privatisation was associated with a substantial reduction in employment, nearly 50%. This is consistent with the expectation that privatisation leads to job losses in over-staffed SOEs. There was a significant increase in labour productivity of over 40% associated with privatisation. While both privatisation and competition increased productivity, it was concluded that competition was a stronger force than privatisation in enhancing productivity. Investment rose sharply and there was a rapid expansion of the telephone network following privatisation.

Conclusion

MNC participation in privatisation illustrates the increasing power that MNCs have in bargaining with host states. The poor economic performance of African states and rising levels of debt forced governments to reduce their intervention in the economy and accept private control over public service provision, through privatisation. African governments can obtain new investment relatively easily, as well as technological resources, by reforming their monopolisation of telecommunications. Telecommunications has been the most successful form of privatisation in SSA. The most popular forms of telecommunications privatisation are to demonopolise the industry and admit private entrants, or to sell shares in the state-owned incumbent to established MNCs. The driving force for MNCs in telecommunications in SSA is the maximisation of returns from their technological capabilities and the undeveloped market potential in the region. The privatisation of telecommunications and the subsequent introduction of competition have positive results for increased investment, profitability, operating efficiency, services coverage and employment levels.

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Chapter 4
Conclusion

Foreign direct investment by MNCs is driving the globalisation process that characterises the contemporary global economy. MNCs are the dominant element of the multinational system of production through their capacity to acquire and control technology, knowledge and capital. Thus they play an important role for all nation-states who require these capacities for their economic development. The objective of this assignment has been to provide evidence that there is an increased shift in the 'balance of power' to MNCs, in the global political economy, between MNCs and nation-states. The Stopford & Strange (1991) approach to MNC-State bargaining was used as a basis for the inquiry. The exploration of this bargaining relationship focused on developing countries and the study culminated in an illustration of MNC involvement in infrastructure privatisation in Sub-Saharan Africa in general and in telecommunications specifically.

The Stopford & Strange (1991) framework argues that there have been fundamental changes in the nature of competition between nation-states. In the past, nation-states competed over territory and wealth-creating resources, but in a globalised economy they have to compete for market share. The pursuit of wealth-creating activities is important to the nation-state for its welfare and internal cohesion. The magnitude of FDI under the control of MNCs and its impact on the nation-state's economic development makes it important for nation-states to attract MNCs to set up operations in their territory. This benefits the nation-state with technology and knowledge transfers and additional capital that may not be available domestically. This drive resulted in the liberalisation of national industrial policies in order to attract FDI. MNCs are attracted by the potential growth prospects of countries, based on the size of internal markets, skilled labour, favourable regulatory regimes and natural resources. Moreover, MNCs also face increased competition for survival due to changes in the structure of global markets and the rapid development of new technologies. Thus, there is a growing interaction between the development strategies of nation-states and the global commercial strategies of MNCs. MNCs and nation-states are jointly exercising control over

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national and international economic development, as well as being competitors for market shares as a means to wealth and survival. Collectively, nation-states are retreating from their former participation in ownership and control over industry, services and trade, and leaving it to MNCs who have better access capital, technology and managerial expertise.

This assignment posed the question of how contemporary global production changed to increase the mobility and bargaining power of MNCs. The international production structure that was established after the Second World War and lasted until the 1970s, was characterised by the expansion of mass production, commonly known as Fordism. In this paradigm, nation-states focused on import-substitution developmental strategies and encouraged firms to standardise production processes and output through specialisation. Competitiveness was determined by the lowest possible price for output, which was achieved by reducing costs through increasing the economies of scale of manufacturing plants using low cost, labour intensive processes. By the 1960s this form of production began to fail as productivity growth slowed down in the industrialised nations and new competition emerged from developing nations, such as the NICs. Commercial competitiveness was henceforth based on product innovation instead of price competition.

The driving force of rapid technological change truncated product life cycles, which led to the increasingly rapid development and manufacture of new and modified products. Maximising product innovation required multi-skilled labour, flexible automation and greater cooperation between firms. This economic development is known as Post-Fordism. Also, the falling costs of transport and communications made it economical to relocate and integrate operations across the globe in search for efficiency to reduce transaction costs. Information and computer technologies reduced the cost of acquiring and disseminating information and coordinating production for world markets. These developments saw the emergence of integrated international production systems that effected the geographic location decisions of MNCs to maximise the competitiveness of the corporate system as a whole. As the mobility of MNCs developed, it increased their ability to move away from the factor costs of a national location and to build networks

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of supply from various locations to service international opportunities efficiently. The nation-state's immobility of resources challenged old economic notions of comparative advantage in international trade and countries had to negotiate with MNCs to have value-added activities located within their borders.

The next research question aimed at discovering how MNCs increased their influence and power vis-à-vis nation-states in their bargaining relationships. Developing countries have a critical advantage over MNCs, namely control over access to their territory. This access includes internal markets, supply of local labour, investment supplies, raw materials and any other resources MNCs may seek. The nation-state's bargaining position is usually increased if it has other alternatives for meeting demands of investment capital and technology or access to export markets. One of the most important demands made by host states is the degree of linkage between the MNC and the local economy. The aim of the host state is to increase the likelihood of transferring some of the MNC's firm-specific advantages over to domestic firms for the development of local entrepreneurial capability and to reduce the costs of imports. The structure of the industry usually determines the nation-state's reliance on MNCs with regard to global integration. The nation-states will, in many cases, be dependent on MNCs with highly integrated systems of technology, capital and managerial expertise. On the other hand, MNCs have complex economic calculations to make regarding their optimal location for production sites. Increased global competition limits the number of businesses and markets that can be financed and managed effectively. The assessment of an MNC's bargaining strength rests on a combination of its product and territorial importance. The technological intensity, the rate of product innovation, the managerial complexities of the enterprise and its export potential all increase the MNC's bargaining power in relation to the nation-state. In general, it can be concluded that the sophistication of the MNC's firm-specific advantages places it in a stronger bargaining position vis-à-vis developing countries that require these capabilities for economic development.

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To illustrate how MNCs have used their power in bargaining with nation-states this assignment focused on the privatisation of telecommunications in Sub-Saharan Africa. Most developing countries have liberalised their investment frameworks to attract FDI. Africa, however, remains marginalised in FDI receipts. This is mainly due to failure to improve human and technological infrastructure, small markets with poor growth prospects, weak institutional frameworks and economic and political instability. After independence, most African states relied on the principle of economic self-reliance and large public enterprises to promote development. These inwardly focused economic policies failed by the 1980s to stimulate satisfactory economic growth and the rising domestic and external debt problems were unserviceable. State-owned public enterprises were characterised by overstaffing, poor financial performance and an inability to provide a sustainable service provision. As part of the structural adjustment programmes from international multilateral institutions and other creditor nations, Africa was, in part, required to privatise inefficient SOEs. A significant percentage of the increased FDI to Sub-Saharan Africa in the 1990s was the result of privatisation programmes. The telecommunications industry is particularly dynamic in this respect, because of its historically poor service provision and the crucial need for new information and telecommunications technologies in the globalised economy. It was the sector that most easily attracted FDI from MNCs with advanced technologies.

The principal objective of the host country in bargaining is to change the institutional relationship of SOEs by transferring its operation from governmental control to the private sector. Public managers of SOEs often have conflicting objectives because of political considerations, thereby reducing the incentive to operate efficient public enterprises. By transferring operations to the private sector, managers have an incentive to increase the efficiency of investment, management and operation, or to be put out of business. Profitable enterprises also reduce public expenditure and indebtedness due to the huge revenues earned from divestiture and predictable income. Empirical research has shown the necessity of having regulatory agencies and privatisation laws in place to ensure the success of the privatisation process. The objective for MNCs in telecommunications is clearly the maximisation of returns from their technological capabilities. Privatised telecommunications markets in Africa have great potential for

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increased market share coupled to the likely government incentive of an exclusivity period limiting competition initially. MNCs do not only increase market share by extending networks to areas with no phones, but also by increasing the range of services supplied to existing customers.

Many research studies in privatisation undertaken by developing countries and in SSA have shown that the private sector is able to provide better services than the public sector. The private sector's technical and managerial expertise, combined with cost covering pricing policies and better financial discipline, provide more resources for expanding infrastructure, including better coverage of poor households, than publicly owned utilities. Newly privatised firms exhibit significant increases in profitability, operating efficiency, capital spending, real sales, total employment and dividends. In the telecommunications industry, empirical research has shown that the introduction of competition increased employment levels since increased investment requires more labour; contrary to the often-cited concern of organised labour that privatisation leads to job losses. However, the introduction of competition without regulatory supervision does not increase service expansion since there is no reason for the competing firms to desist from monopolistic and uncompetitive practices. Once there is a strong regulator in place to manage competition; investment, network expansion and labour productivity increase and real prices decrease. Therefore, the case of privatised telecommunications in SSA illustrates that the host nation has much to gain from bargaining and attracting MNCs to set up operations locally.

Nation-states seek increased economic activity by creating a favourable investment environment to attract FDI and its associated capital and knowledge transfers from MNCs. This can be accomplished through macroeconomic stability, an enabling regulatory environment and the upgrading of infrastructure, which is important for operational efficiency and profitability in a country. MNCs control firm-specific advantages that nation-states require for wealth-creating production. This results in new forms of collaboration between MNCs and nation-states. The factors of production of the nation-state are immobile while those of MNCs are mobile and often more developed.

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Appendix A

MNC participation in Sub-Saharan African telecommunications

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Appendix A: MNC participation in Sub-Saharan Africa telecommunications (Source: World Bank Rapid Response Unit Infrastructure Project database)

Country	Financial Closure Year	Project Name	Related Names	Main Operators	Main Sponsors	MNC Home Country	MNC equity percentage	Total Private percentage	Segment	Type of PPI	Subtype of PPI	Investment Years	USD Million	Year of % Private
Angola	2001	Angola Unitel		Unitel	Portugal Telecom	Portugal	25	75	Mobile access	Greenfield project	Build, own, and operate	2001-2002	75.3	2002
Benin	2000	Libercom Benin		Titan	Titan	USA	50	100	Mobile access	Greenfield project	Build, own, and transfer	2000-2000	60	2000
Benin	2000	Telecel Benin			Orascom	Egypt	80	...	Mobile access	Greenfield project	Build, own, and operate	2000-2000	30.4	...
Botswana	1998	Mascom Wireless		Portugal Telecom	Portugal Telecom	Portugal	51	100	Mobile access	Greenfield project	Build, own, and operate	1998-1998	40	1998
Botswana	1998	Vista Cellular		France Telecom	France Telecom	France	51	100	Mobile access	Greenfield project	Build, own, and operate	1998-1998	40	1998
Burkina Faso	2000	Celtel Burkina Faso	Celtel Burkina	MSI	MSI	Netherlands	100	100	Mobile access	Greenfield project	Build, own, and transfer	2000-2002	28.6	2001
Burkina Faso	2000	Telecel Faso		Telecel International	Orascom	Egypt	80	100	Mobile access	Greenfield project	Build, own, and operate	2000-2000	8	2000
Burundi	2000	Africel		Mauritius Telecom	Mauritius Telecom	Mauritius	...	100	Mobile access	Greenfield project	Build, own, and operate	2000-2000	0.2	2000
Burundi	2000	Spacetel Burundi		Spacetel	Spacetel	UK	100	100	Mobile access	Greenfield project	Build, own, and operate	2000-2000	0.2	2000
Burundi	1993	Telecel Burundi		Orascom	Orascom	Egypt	80	100	Mobile access	Greenfield project	Build, own, and operate	1993-2000	15.7	2000
Cameroon	2000	MTN Cameroon	Camtel-Mobile		MTN	South Africa	70	100	Mobile access	Divestiture	Full	2000-2001	234	2001
Cameroon	1999	Societe Camerounaise de Mobiles (SCM)	Mobilis, Orange	France Telecom	France Telecom	France	90	100	Mobile access	Greenfield project	Build, own, and operate	1999-2001	32.1	2001
Cape Verde	1995	Cabo Verde Telecom		Portugal Telecom	Portugal Telecom	Portugal	40	40	Fixed access, mobile access, and long distance	Divestiture	Partial	1995-1995	20	1995
Central African Republic	1995	Socite Centrafricaine de Telecommunications (SOCATEL)		SOCATEL	France Telecom	France	...	40	Fixed access and long distance	Divestiture	Partial	1995-1995	..	1995
Central African Republic	1995	Telecel-Central African Republic	Caratel	Orascom	Orascom	Egypt	100	100	Mobile access	Greenfield project	Build, own, and operate	1995-1995	1.1	1995
Chad	2000	Libertis Chad		Orascom	Orascom	Egypt	100	...	Mobile access	Greenfield project	Build, own, and operate	2000-2000	..	...
Chad	1999	MSI Chad Telecom	Celtel Chad, Celtel Tchad	MSI	MSI Chad Telecom Plus	Netherlands	100	100	Mobile access	Greenfield project	Build, own, and operate	1999-2002	13	2001
Congo, Dem. Rep.	1999	Celtel DRC	MSI Zaire	MSI	Orton Investment Holdings Limited	Netherlands	100	100	Mobile access	Greenfield project	Build, own, and operate	1999-2002	77.7	2001
Congo, Dem. Rep.	2002	Comcell		Cinergy Corp	Small local investors			...	Mobile access	Greenfield project	Build, own, and operate	2002-2002	..	...
Congo, Dem. Rep.	2000	Sait Telecom SPRL		SAIT Telecom	Orascom	Egypt	...	100	Mobile access	Greenfield project	Build, own, and operate	2000-2001	40	2001
Congo, Dem. Rep.	1998	Vodacom DR Congo	Congo Wireless	Vodacom	Vodacom Congo Wireless Network	South Africa	65	100	Mobile access	Greenfield project	Build, own, and operate	1998-2002	252	2002
Congo, Rep.	1999	Celtel Congo SA		MSI	MSI Gestilac	Netherlands	87	100	Mobile access	Greenfield project	Build, own, and transfer	1999-2002	41.4	2001
Congo, Rep.	1995	Cyrus Telecommunications SA	Cyrtel	France Telecom	France Telecom Investcom Holding	France UK	... ...	70	Mobile access	Greenfield project	Build, own, and operate	1995-1995	4.6	1995
Congo, Rep.	2000	Libertis Congo			Orascom	Egypt	65	67	Mobile access	Greenfield project	Build, own, and operate	2000-2001	28	1997
Congo, Rep.	1997	Societe d'Exploitation de Telecoms		Atlantic Tele-Network	Atlantic Tele-Network	USA	...	...	Fixed access and long distance	Divestiture	Partial	1997-1997	42.5	

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Côte d'Ivoire	1997	Cora Cellular SA	Comstar, Cora de Comstar	Western Wireless International	Western Wireless International	USA	...	100	Mobile access	Greenfield project	Build, own, and operate	1997-2001	39	2001
Côte d'Ivoire	1997	Cote D'Ivoire Telecom	CI Telecom	France Telecom	France Telecom	France	46	51	Fixed access and long distance	Divestiture	Partial	1997-1998	665	1998
Côte d'Ivoire	1997	Loteny-Telecom	Telecel Loteny	Orascom	Orascom Access Telecom	Egypt	52	80	Mobile access	Greenfield project	Build, own, and operate	1997-2000	65.3	2000
Côte d'Ivoire	1996	Societe Ivoirienne de Mobile (SIM)	Ivoiris	France Telecom	France Telecom	France	73	100	Mobile access	Greenfield project	Build, own, and operate	1996-2000	58.1	2000
Equatorial Guinea	2000	Getesa	Ecuator	France Telecom	France Telecom	France	40	40	Mobile access	Greenfield project	Build, own, and operate	2000-2000	..	2000
Eritrea	2001	Eritrea Ericel		Apache Corporation	Ubambo			50	Mobile access	Greenfield project	Build, own, and operate	2001-2001	40	2001
Gabon	1999	Celtel Gabon	Mobile Systems International Cellular Investment	MSI	MSI Gabon Contacts	Netherlands	80	100	Mobile access	Greenfield project	Build, own, and operate	1999-2002	29	2001
Gabon	1999	Telecel Gabon		Telecel International	Telecel International			100	Mobile access	Greenfield project	Build, own, and operate	1999-1999	6	1999
Gambia, The	2001	Africell Gambia			Lintel			100	Mobile access	Greenfield project	Build, own, and operate	2001-2001	6.6	2001
Ghana	1997	ACG Telesystems (Westel)	Westel	Western Wireless	Western Wireless International Adesemi Communications International	USA Nigeria	56 10	66	Fixed access and long distance	Greenfield project	Build, own, and operate	1997-1998	12.1	1998
Ghana	1996	Capital Telecom		Capital Telecom	Capital Telecom			100	Fixed access	Greenfield project	Build, own, and operate	1996-1996	32	1996
Ghana	1995	Celltel Ghana		Schelle Cellular Group (USA)	Hutchison Whampoa Ltd	USA Hong Kong	... 80	100	Mobile access	Greenfield project	Build, own, and operate	1995-1995	5	1995
Ghana	1996	Ghana Telecom		Telekom Malaysia	Telecom Malaysia	Malaysia	30	30	Fixed access and long distance	Divestiture	Partial	1996-1996	388	1996
Ghana	1992	Mobitel Ghana	Millicom (Ghana) Limited	Millicom International Cellular	Millicom International	USA	80	100	Fixed and mobile access	Greenfield project	Build, own, and operate	1992-1992	20	1992
Ghana	1996	Scancom	Spacefon (commercial brand)	Investcom Holdings	Investcom Holding	UK	100	100	Mobile access	Greenfield project	Build, own, and operate	1996-1996	4	1996
Guinea	1997	Intercel Guinee	Telecel Guinee		Small local investors			100	Mobile access	Greenfield project	Build, own, and operate	1997-1997	2	1997
Guinea	1995	Societe des Telecommunications de Guinee (Sotelgui)		Telekom Malaysia	Telecom Malaysia	Malaysia	...	60	Fixed access, mobile access, and long distance	Divestiture	Partial	1995-1998	118.3	1998
Guinea	1997	Spacetel Guinee		Investcom Holding	Investcom Holding	UK	100	100	Mobile access	Greenfield project	Build, own, and operate	1997-1997	..	1997
Kenya	1999	Kencell		Vivendi	Vivendi Sameer Investments	France	60	100	Mobile access	Greenfield project	Build, own, and operate	1999-1999	55	1999
Kenya	1999	Safaricom		Vodafone	Vodafone plc Telkom Kenya	UK	40	40	Mobile access	Greenfield project	Build, own, and operate	1999-2000	52	2000
Lesotho	2001	Telecom Lesotho		Mountain Kingdom Communications	Econet Wireless Ltd Eskom Mauritius Telecom	Nigeria		70	Fixed access, mobile access, and long distance	Divestiture	Partial	2001-2001	17	2001
Lesotho	1996	Vodacom Lesotho Limited (VCL)		Vodafone	Vodacom Sekha-Metsi	South Africa	88	100	Mobile access	Greenfield project	Build, own, and operate	1996-2000	16.5	2000

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Madagascar	1997	Madacom		Distacom (HK)	Distacom			100	Mobile access	Greenfield project	Build, own, and operate	1997-1997	10	1997
Madagascar	1997	Sacel	Samen Cellular	Lityan Holdings Berhad	Lityan Holdings Berhad			100	Mobile access	Greenfield project	Build, own, and operate	1997-1997	0.1	1997
Madagascar	1998	SMM Antaris	Societe Malgache de Mobiles	France Telecom	France Telecom	France	35	100	Mobile access	Greenfield project	Merchant	1998-1998	..	1998
Madagascar	1994	Telecel Madagascar		Orascom	Orascom	Egypt	...	100	Mobile access	Greenfield project	Build, own, and operate	1994-1994	5	1994
Malawi	1999	Celtel Limited Malawi		MSI	MSI	Netherlands	80	100	Mobile access	Greenfield project	Build, own, and operate	1999-2002	15.1	2001
Malawi	1995	Telekom Networks Malawi	TNM	Telekom Malaysia	Telecom Malaysia	Malaysia	...	60	Mobile access	Greenfield project	Build, own, and operate	1995-1999	18.4	1999
Mali	2002	Ikatel Mali		Ikatel SA	France Telecom	France	...	100	Mobile access	Greenfield project	Build, own, and operate	2002-2002	42.7	2002
Mauritania	2000	Mauritano-Tunisienne de Telecommunications SA (Mattel)			Somatel			100	Mobile access	Greenfield project	Build, own, and operate	2000-2001	51.6	2001
Mauritania	2001	Mauritel		Compagnie Mauritanienne des Telecommunications	Maroc Telecom			54	Fixed access, mobile access, and long distance	Divestiture	Partial	2001-2001	48	2001
Mauritius	2001	Mauritius Telecom	Cellplus (Cellular)	France Telecom	France Telecom	France	100	100	Fixed access, mobile access, and long distance	Divestiture	Partial	2001-2002	365.6	2001
Mauritius		Vodacom International			Vodacom	South Africa	100		Mobile access	Greenfield project	Build, own, and operate			
Mozambique	1997	Telecomunicacoes Moveis de Mocambique (TMV)	Mcel	Deutsche Telecom	Deutsche Telecom	Germany	24	26	Mobile access	Greenfield project	Build, own, and operate	1997-1999	29	1999
Mozambique	2002	Vodacom Mozambique			Vodacom	South Africa	100	100	Mobile access and long distance	Greenfield project	Build, own, and transfer	2002-2002	15	2002
Namibia	1995	Mobile Telecommunications (Namibia)		Telia	Sewdfund International	Sweden	23	49	Mobile access	Greenfield project	Build, own, and operate	1995-1998	22	1998
Niger	2000	Celtel Niger		MSI	MSI	Netherlands	70	100	Mobile access	Greenfield project	Build, own, and operate	2000-2002	16.7	2001
Niger	2001	Sonitel		Gayatri Projects Ltd.	ZTE	China	...	51	Fixed access and long distance	Divestiture	Partial	2001-2001	30.2	2001
Niger	2000	Telecel Niger		Telecel International	Orascom	Egypt	100	100	Mobile access	Greenfield project	Build, own, and operate	2000-2000	5.8	2000
Nigeria	2001	Cellcom		Kalyani Group	Cellcom			100	Fixed and mobile access	Greenfield project	Build, own, and operate	2002-2002	14	2002
Nigeria	2001	Econet Wireless Nigeria	EWN	Econet Wireless Limited	Econet Wireless Limited			65	Mobile access	Greenfield project	Build, own, and operate	2001-2001	565	2001
Nigeria	1998	EM International Systems			EM International Systems			100	Fixed access	Greenfield project	Build, own, and operate	1998-2000	20.6	2000
Nigeria	1998	Intercellular			Intercellular			100	Fixed access	Greenfield project	Build, own, and operate	1998-2000	40.1	2000
Nigeria	1992	Mobile Telecommunications Services Limited (MTS)		Digital Communication Limited	Digital Communication Limited	USA	55	55	Mobile access	Greenfield project	Build, own, and operate	1992-2001	1	2001
Nigeria	2001	MTN Nigeria		MTN	MTN	South Africa	79	100	Mobile access	Greenfield project	Build, own, and operate	2001-2001	285	2001

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Nigeria	1997	Multilinks		Kenston Investment	Kenston Investment			100	Fixed access	Greenfield project	Build, own, and operate	1997-2000	57	2000
Rwanda	1998	Rwandacell		MTN	MTN	South Africa	31	50	Mobile access	Greenfield project	Build, own, and operate	1998-2001	15.6	2001
Senegal	1998	Sentel GSM		Millicom International Cellular	Millicom International	USA	75	100	Mobile access	Greenfield project	Build, own, and operate	1998-1998	..	1998
Senegal	1997	Societe Nationale des Telecommunications du Senegal (Sonatel)	Sonatel, Alize	France Telecom	France Telecom	France	42	60	Fixed access, mobile access, and long distance	Divestiture	Partial	1997-2001	406.8	2001
Seychelles	1995	Cable and Wireless Seychelles		Cable and Wireless	Cable and Wireless	USA	100	100	Mobile access	Greenfield project	Build, own, and operate	1995-1995	..	1995
Seychelles	1997	Telecom Seychelles Ltd.	Airtel	Bharti Enterprises	Bharti Enterprises			100	Fixed access, mobile access, and long distance	Greenfield project	Build, own, and operate	1997-1997	25	1997
Sierra Leone	1998	Celtel Sierra Leone		MSI, Penhurst Investment Group	MSI	Netherlands	100	100	Mobile access	Greenfield project	Build, own, and operate	1998-2002	17	2001
Sierra Leone	2000	MIC Sierra Leone	Mobitel, Millicom Sierra Leone	Millicom International Cellular	Millicom International	USA	70	100	Mobile access	Greenfield project	Build, own, and operate	2000-2001	6.5	2001
Somalia	2000	Barakaat	Hormud		Small local investors			100	Mobile access	Greenfield project	Build, own, and operate	2000-2002	2	2002
Somalia	1998	Bosaso Somalia		Bosaso Somalia	Bosaso Somalia			100	Fixed access	Greenfield project	Merchant	1998-1998	..	1998
Somalia	1997	Galkom Somalia		Galkacayo Telecom Corporation	Galkacayo Telecom Corporation			100	Fixed access and long distance	Greenfield project	Merchant	1997-1997	..	1997
Somalia	2001	Nationlink	...	...	...			...	Fixed and mobile access	Greenfield project	Build, own, and operate	2001-2001	..	...
Somalia	1998	Netco Somalia	North Eastern Telecommunications Company		North Eastern Telecommunications Co.	USA	...	100	Fixed access	Greenfield project	Merchant	1998-1998	..	1998
Somalia	2001	Telecom Somalia	...	...	...			...	Fixed access	Greenfield project	Build, own, and operate	2001-2001	..	...
Somalia	2001	Telsom Mobile			Somatel			...	Mobile access	Greenfield project	Build, own, and operate	2001-2001	..	...
South Africa	2001	Cell C		Saudi Oger	Saudi Oger Cellsaf	Saudi Arabia	60	100	Mobile access	Greenfield project	Build, own, and operate	2001-2001	220	2001
South Africa	1993	Mobile Telecommunications Network (MTN)		MTN Group	Johnic Limited	Domestic	...	96	Mobile access	Greenfield project	Build, own, and operate	1994-2002	2,034	2002
South Africa	1997	Telkom SA		Southwestern Bell International Holdings (SBC)	SBC Communications Telecom Malaysia	USA Malaysia	18 10	33	Fixed access and long distance	Divestiture	Partial	1997-2002	6,498	2002
South Africa	1994	Vodacom		Vodafone	Vodafone Telkom South Africa	UK	35	85	Mobile access	Greenfield project	Build, own, and operate	1994-2002	2,976	2002
Sudan	1996	Mobitel Sudan		MSI	MSI	Netherlands	39	39	Mobile access	Greenfield project	Build, own, and operate	1996-1996	6	1996
Sudan	1992	Sudatel		Sudatel	Local companies	Domestic		35	Fixed access and long distance	Divestiture	Partial	1992-1992	..	1992
Swaziland	1998	MTN Swaziland		MTN	MTN	South Africa	30	30	Mobile access	Greenfield project	Build, own, and operate	1998-2002	33.6	2002
Tanzania	1996	ACG Telesystems - Tanzania		African Communications Group	African Communications Group (US based)	USA	...	100	Fixed access	Greenfield project	Build, own, and operate	1996-1998	8	1998

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Tanzania	1996	Jupiter Communications		Equity Investment Management	Equity Investment Management			100	Fixed access	Greenfield project	Build, own, and operate	1996-1996	0.2	1996
Tanzania	1993	Mobitel Tanzania	MIC Tanzania, Adesemi Communications International	Millicom International Cellular	Millicom International	USA	75	75	Fixed and mobile access	Greenfield project	Build, own, and operate	1994-2002	33.5	1999
Tanzania	2001	Tanzanian Telecommunications Company Limited	TTCL	Deutsche Telecom, MSI	Deutsche Telecom	Germany Netherlands	... ...	35	Fixed access, mobile access, and long distance	Divestiture	Partial	2001-2001	182.5	2001
Tanzania	1995	Tritel Telecommunications		TRI Telecommunications (Malaysia)	Technology Resources Industries	Malaysia	...	100	Mobile access	Greenfield project	Build, own, and operate	1995-1995	25	1995
Tanzania	1999	Vodacom Tanzania		Vodacom	Vodafone	South Africa	65	100	Mobile access	Greenfield project	Build, own, and transfer	1999-2001	99.9	2001
Tanzania	1997	Zanzibar Telecom Limited	ZANTEL	Emirates Telecom Corporation, Meeco International	Emirates Telecom Corporation	UAE	...	82	Mobile access	Greenfield project	Build, own, and transfer	1997-1997	2	1997
Togo	1999	Telecel Togo		Orascom	Orascom	Egypt	...	100	Mobile access	Greenfield project	Build, own, and operate	1999-1999	5	1999
Uganda	1994	Glovergem Celtel Limited	Celtel Limited Uganda	MSI	MSI Convergem AG	Netherlands	89	100	Mobile access	Greenfield project	Build, own, and operate	1994-2002	39.2	2001
Uganda	1998	MTN Uganda		MTN	MTN	South Africa	52	100	Fixed and mobile access	Greenfield project	Build, own, and operate	1998-2001	140.2	2001
Uganda	1999	Uganda Telecommunications Limited	UTL Telecel	Orascom	Ikwezi Group	Egypt	...	51	Fixed access, mobile access, and long distance	Divestiture	Partial	1999-1999	33.5	1999
Zambia	1997	Telecel Zambia		Orascom	Orascom	Egypt	...	100	Mobile access	Greenfield project	Build, own, and operate	1997-2000	21.2	2000
Zambia	1998	Zamcell	Celtel Zambia	MSI Mitsui	MSI Mitsui	Netherlands	80	100	Mobile access	Greenfield project	Build, own, and transfer	1998-2002	35.7	2002
Zimbabwe	1998	Econet			T.S. Masiyiwa			100	Mobile access	Greenfield project	Build, own, and operate	1998-1998	25	1998
Zimbabwe	1998	Telecel Zimbabwe		Orascom	Orascom	Egypt	60	100	Mobile access	Greenfield project	Build, own, and operate	1998-1998	21	1998