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MULTINATIONALS AND THE BARGAINING DYNAMIC AMONG LEAST DEVELOPED COUNTRIES

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Abstract: Most of the twentieth century, relations among multinational companies and the governments of the Least Developed Countries (LDCs) were seen as conflictive, mainly in the extractive sector, as the former were considered as highly exploitative. However, this vision has evolved by two essential factors: a) the acceleration of the process of economic globalization in the last 30 years and b) certain advantages LCDs have promoted to foster economic growth at the moment Multinationals Companies (MNCs) are installed in their territories. The major concern of national governments in the LDCs is that some MNCs have greater influence and negotiation power than governments themselves because of the infrastructure deficiencies and competitive advantages, placing them in an unfavorable position at the time to negotiate with MNCs. This paper tries to identify the bargaining dynamic among multinationals and LDC governments, and the effects on the latter ones.

Key words: Foreign Direct Investment, Bargaining strategies, Economic globalization, least development countries, Theoretical approaches.

Number of classification: JEL: F23, F51, F02, O10, B49

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I. Introduction

According to the United Nations Conference on Trade and Development (2008), the least developed countries (LDC) are countries with the lowest socioeconomic indicators, especially in the Human Development Index (HDI).[3] The United Nations currently considers 48 countries under this category, which are mainly in Africa, Asia, Oceania and one in the Caribbean. The main characteristics of LDCs are their economic vulnerability, low human development and lack of strong and reliable institutions. With few growth prospects for their own socio-economic structures, LDCs governments see an opportunity for development through the arrival of Multinational Companies (MNCs) in their territory.

However, the relations among MNCs and LDCs have been conflictive over time. Nevertheless, these tend to be reduced by three essential factors: a) the acceleration of the process of economic globalization in the last 30 years, b) LDCs governments have noted that there are certain advantages in boosting economic growth at the moment when MNCs are installed in their territory, and c) a constant struggle with the cultural factors in the political systems of many of these countries, such as corruption, the absence of a state of effective right or the institutional weakness of these countries, which makes negotiation and its processes very difficult implementation of international capitals.

In this sense, the major concern of national governments in LDCs is that some multinationals have a greater influence and negotiation power than governments themselves, which puts them at a disadvantage when negotiating. The vast majority of these companies not only has new technologies, but they are also willing to invest in the other countries, develop the skills of the population, among other factors that puts them at an early advantage in the dynamics of negotiation. However, they do not sometimes count on the fact that in these negotiation

[3]In addition, the UNCTAD (2008) considers that a least developed country should meet the following criteria: a) A "low-income" criterion, based on the gross national income (GNI) per capita (a 3-year average, 2002–2004), with thresholds of $750 for cases of addition to the list, and $900 for cases of graduation from LDC status; b) A "human assets" criterion, involving a composite index (the Human Assets Index) based on indicators of (i) nutrition (percentage of the population undernourished); (ii) health (child mortality rate); (iii) school enrolment (gross secondary school enrolment rate); and (iv) literacy (adult literacy rate); and c) An "economic vulnerability" criterion, involving a composite index (the Economic Vulnerability Index) based on indicators of (i) natural shocks (index of instability of agricultural production; share of population displaced by natural disasters); (ii) trade shocks (index of instability of exports of goods and services); (iii) exposure to shocks (share of agriculture, forestry and fisheries in GDP; merchandise export concentration index); (iv) economic smallness (population in logarithm); and (v) economic remoteness (index of remoteness).

processes, corruption and the presence of lobbyists plays a very important role. Those terms of the agreements reached are not very transparent.

The objective of this article is to know the dynamics of negotiation between a multinational company and their effects on the least developed countries. The work has been divided into five sections. The first part intends to conceptualize the multinational company. The second section addresses the main theories of MNEs, in order to understand the different interpretations about the phenomenon. The third one looks at the effects of multinationals on LDCs. The fourth section outlines the negotiation strategies of LDCs governments against MNCs. Finally, in the fifth section some general conclusions are made.

The logic of this article is to think from a Latin America perspective and how the presence of MNCs can be potentiate, in order to strengthen its economy, but on the basis that latin governments have a series of cultural political traditions that do not favor the legal framework of business, as well as a major problem of corruption, which affects Direct Foreign Investment or even the frameworks to do business.

Most of the literature comes from abroad or is very normative in the sense that it forgets the socio-political context as a fundamental element for effective and healthy businesses in a democratic, plural and transparent context. Thus, this article recover the specific weight that there is in the socio-political context as a fundamental trigger for the presence of MNCs and the instauration of business in countries with weak development.

II. Conceptual bases of Multinational Corporations

The current process of economic globalization cannot be understood without trade liberalization, technological innovations and especially the liberalization of national regulations about foreign investment made in last decades, and also the processes of political transitions called the Third Wave, which took the step for the construction of liberal democracy in most of the countries that had an authoritarian or dictatorial regime in the world, and especially for the case of Latin America. As part of these advances, multinational companies have played a key role in the expansion of international economic integration, not only for the volume they generate and the financial flows they have produced, but also because they have contributed in the modification of trade patterns from an interindustrial trade toward an intraindustry one.

The multinational company has been conceptualized in different ways; some authors refer to them as global, international or transnational companies. However, Hisrt and Thompson (1996) suggest that these companies are not yet sufficiently global in their operation to be truly transnational, therefore, throughout this work we will refer to them as multinational companies.

It is possible to find several definitions of what an MNE is, for example Willetts (2001: 362) defines it as "a company based in one country, which has subsidiaries that maintain commercial dealings with a company or government in another country". Durán (2001: 95) considers that an MNC is one that "owns (coordinates and controls) subsidiaries in one or more foreign countries". Evans and Newnham (1998) propose that the MNC is a profit-making organization that controls assets in at least two countries. For Gilpin (2001: 278) a MNC is a "company of a particular nationality which is owner partially or totally of subsidiaries within other national economy."[4] As we can see in previous definitions, there is a common denominator that is the control of a business activity abroad and the existence of at least two countries, which can be identified as the country of origin (home state), which belongs to the company and the host country (host state), which is where the company owns goods or has subsidiaries.

Although in the social sciences it is difficult to establish the degree of causality among variables, for some experts (Sanna-Randaccio and Veugelers, 2003, Barrios *et al*, 2003; Feldstein, 2000; Gilpin, 2001; Bhagwati, 2004; Wolf 2005; Sala-i-Martin, 2006) Foreign Direct Invest (FDI) is considered as a catalyst for economic growth, whose main benefits are given through technology transfer, especially in the form of new varieties of capital inputs that are not achieved with financial investments or trade in goods and services, and contributes to the country's greater integration into international trade. It has also been verified that promote competition in the domestic market of inputs and is capable to promote the creation of a competitive business environment to increase business development. Also, countries that receive FDI typically obtain training for their employees in the performance of the new tasks, which contributes to the development of human capital in that specific region. In addition, the economic spill that produces the FDI increases the local collection for the respective levels of Government.

However, their presence and effects on national economies are also a source of criticism, for example MNCs are thought to impoverish the host country and exploit national workers.

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[4] To effects of this work, we will base on this last definition.

Another aspect that has been criticized is that they are more powerful than small countries and that they damage national sovereignty (Anderson and Cavanagh, 2000).[5] A critical position that is not only used for the MNCs but is part of the ideological positions of the so-called "Globalophobics" and it is forgotten that from the theory, these processes of intervention in local economies are "natural" within the dynamics of globalization. The intervention in local economies does not carry an idea of colonization, but of the complementarity of economies, typical of the dynamics of the globalized economy

In general terms, FDI is intended to partially or totally monopolize the market or production in an economy of another country. This investment can be given in services, manufacturing or in the extraction and exploitation of natural resources. These actions are done in existing activities or creating new investment, this has been called "Greenfield" (Gilpin, 2001; Durán, 2001; Dunning and Narula, 1997).

To gain control of a company in another country, the United Nations (UN) proposes that there is no need for full and majority shareholding in a company. The UN includes subsidiaries (the parent companies own more than 25% of the voting shares) and the affiliates (between 10% and 25% of the shares) (Durán, 2001).

Historically, MNE activity in the primary sector has been central to its development. Economic growth throughout the fifteenth and twentieth century's, forced companies to seek natural resources in other continents, especially LDCs, with oil, aluminum, copper, among others, being the main resources exploited. It is no coincidence that MNCs have been criticized by the extractive sectors of the host countries for being highly exploitative companies. The economic impact they had on local markets was generally minimal, compared to gains from the extraction and sale of hydrocarbons or that exploited natural resource (Taylor, 1999; Lipsey, 2001).[6]

With respect to manufacturing or secondary sector, this has traditionally been the most important of MNCs activity. The rise of manufactures, especially in the twentieth century, increased the importance of Developed Countries (DC) as receivers of FDI, with much of it being used in those countries. In the LDCs manufacturing investment has been very selective in its location, preferring to be installed in countries where there is a greater development, as is the case of the Emerging Countries. In this sector, the main element of exchange has been the

[5] These situations will be discussed later.

[6] For example, in the case of Mexico in the 1930s, extreme measures were taken by expropriating the oil sector that was in the hands of foreign MNCs, which made big gains, at the cost of deplorable working conditions.

transfer of technology, which is controlled by the MNCs through patents, and it is estimated that approximately 70% of the payments for rights or technology that are made in the world are between multinationals and their subsidiaries (De la Dehesa, 2007). However, the effect of this transfer of technology has not been optimally exploited in many LDCs. For example, if the production system of an MNC subsidiary requires skilled labor, such a system will not be appropriate where labor is cheap and unqualified. This further limits the possibility for LDCs to enter the global networks of MNCs (Taylor, 1999).

The location of manufacturing activity has not been limited geographically like extraction activities. When deciding where an MNC subsidiary is to be located, it can choose among different destinations. In addition, if a host country is interested in attracting that investment in advance, the MNC will offer positive indications that it will be able to enter that market, often backed by its country of origin (Lipsey, 2001). Of course, these facilities will increase the bargaining power of the company in the final pact, for example it can be offered preferential treatment with trade unions, tax cuts, etc. In general terms, the manufacturing activity of an MNC is usually more integrated and influential in the economic and social life of the host country.

In the case of the services sector, MNCs play an important role in their spread around the world, on the one hand, banks, insurance and other financial services, and on the other hand tourism. Like the manufacturing sector, multinationals are usually installed in developed and emerging countries, and in a select number of LDCs, once again they complicate the integration of these to the global networks. This sector has been intimately linked to the secondary sector, since the international mobilization of the service industry generally follows the manufacturing industry. Thanks to this, in recent years, FDI in the service industry is the fastest growing MNC sector (Goldberg, 2004; Bilir *et al*, 2014).

Currently MNCs, no matter the economic sector in which they operate, are responsible for two thirds of world exports of goods and services which represent nearly 10% of all global local sales. In addition, the value chains managed by the MNC account for 80% of world trade (WTO, 2015; UNCTAD 2013), reflecting that there are very important non-governmental agents in the expansion of global economic activity. However, there are different theoretical interpretations about investment motivations of MNCs. In the next section, some of the most important assumptions will be discussed.

III. Theorizing Multinational Corporations.

The multinational company is a complex phenomenon from a conceptual point of view which has been analyzed from different perspectives. As a matter of fact, it has produced an extensive literature about the subject that certainly fortifies the scientific debate. However, a good starting point is exposed by Gilpin (2001), who in general proposes that this phenomenon can be approached from the neoclassical point of view, through business interpretation, to the proposal of political economy. In the case of neoclassical economists, they consider that the market is the main actor in an economy, thus minimizing the participation of institutions as influential agents. In this perspective, the behavior of companies will be determined mainly by the market. Thus, the nationality of the companies and their form of operation, whether local or international, has little relevance to explain their behavior (Gilpin, 2001: 279). Krugman *et al* (2015) considers that the modern theory of MNCs tries to answer two fundamental questions: why do MNCs produce in several countries instead of one? And, why its production in different locations is done by the same company and not by separate ones? The first question concerns to the theory of localization, while the second one refers to the theory of internalization.

The theory of localization, refers to the location of production will be determined, largely by the resources needed. For example, PC or notebook manufacturers locate their technology-intensive design resources in the eastern Silicon Valley of the United States and their labor-intensive assembly plants will be wherever it is cheaper. This theory, in turn poses other alternatives of location such as transportation costs and barriers to trade. In general, location theory states that the decisions of an MNC as to where to produce are based on the principles of the general theory of international trade (Krugman *et al* 2015).

With regard to the theory of internalization, it proposes that operations with different countries lead to high transaction costs which can be reduced internalizing them, and this favors the creation of MNCs. In this sense, Krugman *et al* (2015) agree that there are always transactions between MNCs around the world where the output of one subsidiary is usually the input of the production of another, whereas the technology developed in a subsidiary can be used in others. Activities such as these are the ones that hold the MNC together and the company probably exists to facilitate those transactions. However, this does not mean that all transactions must be carried out within the company, in most cases the components can be sold in one market

and the technology can be sold to other companies. This means that these transactions are usually cheaper when they are made within the company, and in turn it can be profited by their commercialization.

However, the position of Krugman *et al*, fails to explain the role of MNCs in the global economic system, since they consider that multinational companies are not a determining factor in the international economy. They also argue that FDI and other economic outcomes produced by MNCs have little effect on the overall economic distribution and could not be distinguished from those of international trade. For Krugman *et al*, the main effect of FDI is at the domestic level, since it causes changes in the distribution of income rather than at the international level.

The second perspective on the behavior of MNCs can be approached from a business view, such as Raymond Vernon (1973), John Dunning (1999), and Michael Porter (1990), among others. The main ideas of this position are focused on several studies of international business operations aimed at knowing the benefits of FDI in both the country of origin and the host country.

The contribution of Vernon (1973), is mainly based on his theory of the "product life cycle" that proposes that the location of production of certain types of products changes as they go through their life cycles, which consist of four stages: introduction, growth, maturity and decline. For Vernon, companies develop products because there is an immediate need and market for them. For example, a US company is more appropriate to develop a product for the US market or a French company for the French market. In addition, under this perspective much of the new technology is generated in developed countries due to a certain combination of factors such as the competition between companies, consumer demand, availability of scientists and engineers, and senior engineers.

As the product life cycle progresses, MNCs start moving to other countries where the last one producing the product (declining phase) is in a LDC. When production reaches them, the processes have become more standardized, the product is no longer capital intensive and LDCs will generally export to declining markets or reduced niche markets in PDs. Although Vernon's theory explains how MNCs expand throughout the world according to the life cycle of their products, it has certain limitations. For example, this type of theory can only be confirmed in some products with extremely short life cycles such as non-perishable consumer products, synthetic materials, and electronic devices which are subject to obsolescence in their use and

manufacture. This theory tries to explain the process and not so much the reasons why MNCs decide to mobilize across the world.

A second proposal of the business perspective is the eclectic theory of John Dunning (1999), which emphasizes that technology, has been an essential factor for the development of MNCs. In this sense, communications and transport have enabled MNEs to organize and manage their services and production globally. According to Dunning (1999), the eclectic approach is based on three economic theories: the first is the theory of industrial organization which explains how it is possible for a group of companies to acquire and retain a competitive advantage or set of them to another group of companies. The second is the theory of the company, which tries to explain the organizational form by which the company creates increases and uses competitive advantages. Finally, the localization theory, explained previously.

The analysis of the three previous theories has allowed the creation of a new paradigm called OLI (Ownership-Location-Internalization), which Dunning (1999: 8) defines as "at any moment of time, the ownership and activity patterns of MNEs will depend on (i) the configuration of their competitive advantages (ownership (O) specific) vis à vis non-multinational companies; (ii) the attraction of competitiveness of a country or region (location (L) specific) vis à vis other countries; and (iii) the benefits of the companies for exploiting these two advantages by internalizing the market for the advantages of O specific, resulting in the advantage of internalization (I)". In this way, MNCs are more successful economically than domestic enterprises.

The third proposal of the business perspective is the strategy theory of Michael Porter (1990), which proposes that international business or MNCs are characterized by a value chain that goes from extraction, through production until marketing. In this manner, each of the companies must decide on what and how many activities to enter and where it will be installed. Therefore, the decision will depend on the competitive strategy of each MNC.

In general, the proposals made by the business perspective are focused inward of the company, that is, they consider that the growth of MNCs is due to a business and organizational strategy where the main reason for their international division in production is due to the search for the reduction of production costs. However, they leave aside fundamental aspects such as phenomena at the international level, which are approached from the perspective of political economy, which is then developed.

At least there are two positions of political economy approach that explain the behavior of MNCs: the Marxists and the State-Centric interpretation. One of the main promoters of Marxist ideas about MNCs is Steven Hymer (1976), who proposes two essential laws of the monopoly of capitalism. The first refers to the increase in the size of the company, which grows both domestically and internationally, creating a kind of center-periphery production, where the center is represented by the developed countries and in the periphery by the LDCs. The second law proposes that the MNCs generate an uneven development, since they exploit the periphery obtaining the maximum benefit for them. Therefore, according to the Marxist interpretation the main characteristic of MNCs is that they are exploiters of less developed countries.

The State-Centric approach, on the other hand, proposes that the increase in MNCs would not have been possible without a favorable international political-economic environment. According to Gilpin (2001: 288), this environment "was permissible thanks to the efforts of a dominant power, whose economic and security interests favored an international commercial opening". This dominant power refers to the United States, which at the end of World War II emerges as world hegemony, thus creating the environment for the expansion of its companies around the world. In this way, the economic policy approach allows to observe that MNCs are immersed in particular environments of the countries in which it is present, as well as in the regional and international sphere in general.

The analysis of the previous theories allows us to observe that the attraction of the FDI to a specific market is conditioned by factors of different nature, among which the following stand out:[7]

Macroeconomic factors: These factors reflect the stability, competitiveness and reliability of the country, region or micro-region to undertake businesses. To this end, MNCs take as reference the growth rate, current and historical inflation, the Gross Domestic Product (GDP), saving-investment ratio, current account balance as a proportion of GDP, external debt, the dynamism of foreign trade, and the country risk index, among other factors.

Domestic market: The potential of the market in terms of demand is an element that multinationals take into account when deciding their incursion in a particular country or region. In this sense, the factors that are analyzed are population size, geographical proximity to other

[7] For a deeper analysis of the attraction factors of FDI to a country, see UNCTAD (2015) and Bhagwati (2004).

external markets, GDP per capita, population growth, distribution of wealth, facility of doing business, saving and the potential of consumption. In addition, they take into account the related or support industries, as well as the strategy, structure and rivalry of the companies already consolidated in the market (Porter, 1990).

Production factors: A third factor that takes into account FDI when locating a new market is the quality of the factors of production of the host country or region. These factors include the quality of labor, the availability of capital and the degree of development of the infrastructure. Regarding labor, this is of great importance to the multinational depending on the complexity of the value chain of the product or service that is provided, so it can be a highly skilled labor or a labor with less preparation. Also, multinationals prefer to settle in regions where there is a wide availability of capital that translates into credits for productive projects, low requirements and guarantees to access them, low interest rates, among others. In addition, infrastructure in the region is a factor that can facilitate or, in the absence of this, hamper the activities of multinationals, so the degree of development of this element can be fundamental for the installation of FDI. Therefore, it is possible to state that the MNCs base their inclusion in a market in the principles of localization theory, which states that the decisions of an MNC as to where to produce will be determined by the resources needed (Krugman *et al* 2015).

Public policies: Most of the competent authorities at the different levels of government implement public policies aimed at attracting and promoting FDI, such as tax reductions, availability of settlements, favorable industrial parks, and so on.

Institutional stability: Within this factor, the governmental effectiveness can be found in the public services offered, the quality of the bureaucratic system and the level of corruption, and in the federative entity or the municipality. In addition, this factor includes the degree of legal certainty that different levels of government can offer to multinationals, whether in political stability, employment, respect for property rights and, in general, an effective rule of law.

This approach would include the need to use new analytical approaches to understand the relationship between MNC's and local development in its broadest dimension, above all so as not to fall into the simplistic visions of an international interrelation entails an apocalyptic idea regarding sovereignty national. The approach that can help is that one of governance. Governance can be understood as a new approach that tries to solve the problem of the governance crisis of States and traditional public administrations, placing the analysis on the importance of State-

society interactions and horizontal coordination among multiple social agents, for this reason, it is oriented above all to the way in which the patterns of interaction between public administration and society are established and structured (Natera, 2004; 2005).

In this way, it is possible to understand that governance refers to decision making by a range of politicians or stakeholders, including those who occupy formal positions of power and citizens, this means that organizing citizens and civil society and lobbying participate in the decision making of a political system, expressing their interests, their demands and influencing how such decisions are adopted and how public policies are designed. Thus, governance responds to a complex and global society context and alludes to the need and presence of combined action between different agents that must act in a cooperative way to reach solutions that agents alone cannot reach, making reference to the coordination of government actions with institutions and actors to achieve development purposes in a democratic and participatory framework (Fernández and Macarena, 2012: 4).

Therefore, in the negotiation processes between governments and MCNs, they negotiate with other agents or steakholders, which justifies the analysis from the vision of multilevel governance that is essential to understand the relationship between international and local actors.

The methodological problem is that this concept does not reach to define the role and limits of the new social actors, since it alludes to the idea of a decentralized decision making, with a base of democratic participation, attracted by a more global vision of the actors that intervene in a policy, but still without a clear idea of who these actors are and their level of action, which has generated the action of inclusive economic-policies of all social, governmental and intergovernmental actors, likewise, the creation of supranational agencies that implicitly influence the decision-making of States in the actions of the political system.

Multilevel governance focuses on the logic of the idea of cooperation and collaboration. (Natera, 2004), thus, the center of attention in multilevel governance, is not each administration and its particular results, but the 'inter-administrative system' as an “All” (Natera, 2005). The central thought of this analytical approach, is to consider how the action of different public administrations affects the citizenship that resides in a determined territory, being understood by different administrations: at the local, state, national and supranational level, as well as different actors both in the public and private sphere, thus arriving at the consideration of citizenship, company, government and international organization. Thus, this approach would help to

understand the process of improving local conditions from the recognition of the international context.

However, what are the main effects of multinational enterprises in the host country? We will now discuss the main consequences related to this question.

IV. Effects of Multinational Companies in the Host Country.

Relations between MNCs and host governments, particularly in LDCs, are complex. This is mainly because MNCs seek to maximize their economic benefits, while LDC governments seek to maximize the added value that MNE activity can leave them, especially those that stay within the borders from the country. Likewise, because of their characteristics of technology, capital, location and so on, MNCs are often believed to have greater bargaining power than national governments.

There is a great debate about the possible effects of MNCs in the host country, and more so if it is a developing country. The cost-benefit analysis of this relationship is often complicated and to some extent subjective, and is easily subject to value judgments (Durán, 2001). However, most literature (Sanna-Randaccio and Veugelers, 2003; Barrios *et al*, 2003; Feldstein, 2000; Gilpin, 2001; Bhagwati, 2004; Sala-i-Martin, 2006; Javorcik, 2015; Narula and Pineli, 2016) coincides that an incoming flow of investment from MNCs can stimulate local development by increasing and improving resources and capacities (capital stock, technology, entrepreneurship, market access), raised competition, better allocation of resources, development of human resources, employment creation, etc. In this sense, companies will want to move their resources, such as capital and technology abroad when the potential yield is high, especially in markets where these resources are scarce. Certainly, the mere existence of resources in a country does not guarantee that they will contribute to production; however, MNCs allow the use of those inactive resources. For example, oil production requires not only the presence of oilfields, but also the knowledge of how to find them, the equipment to extract it and the facilities to process it. Simply extracting oil is a waste of time if there are no markets or transportation facilities, which can be provided by a foreign investor.[8]

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[8] The investment of MNCs can initiate the improvement of resources by educating local staff to use the new equipment, production methods and, above all, to use new technologies. The transfer of innovative working methods

However, one of the most widespread criticisms against MNCs is that they exploit workers in LDC's. According to Bhagwati (2004: 259), "[multinational] companies that generate jobs should be applauded, regardless of whether their motivation to invest abroad is to make a profit and not do well". Critics do not agree with this idea and base their arguments on the fact that MNCs pay lower wages in LDC's. However, there is empirical and econometric evidence that demonstrates the opposite (Brown *et al*., 2002; Graham, 2000). Studies point out that the salary paid by MNCs in developing countries is higher than the country's average salary. Therefore, what they do is pay a competitive salary, according to the local conditions of each country. Although with some degree of caution, the arrival of FDI should be seen especially in LDC's, as an opportunity for development and not as a threat.

A recurring criticism of MNCs is that they are more powerful than national governments themselves. The largest multinationals are said to have bigger budgets than some developing countries. However, this criticism lacks all truthfulness since there are errors of interpretation on the part of the critics that distort the reality. First, in the political arena, MNCs cannot be compared to the government's capacity for coercion over its citizens, in this sense the government continues to play the central role. Therefore, if MNCs are established under a jurisdiction, they will have to be developed under the relevant laws, which are ultimately dictated by the national government.[9] Second, the way in which critics establishes that multinationals are economically more powerful than some countries is by comparing firm's sales with countries GDP, which are non-comparable variables, since they do not measure the same. As a consequence of this criticism, Grauwe and Camerman (2002) carried out a study comparing the added value of the companies and the result radically contradicts the criticism. The authors conclude that "firms are surprisingly smaller compared to other nation-states" (Grauwe and Camerman, 2002: 15). Therefore, nation-states continue to be more important agents *vis-a-vis* MNEs.

However, not everything is positive of multinationals; there are ambiguous points about their activities that have harmful consequences such as environmental damage, the sale of harmful products, bribery and corruption that sometimes surrounds these companies. Even more important were the lobbying of MNEs to defend their interests before the World Trade

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increases productivity, which in turn increases the time available for other activities. Furthermore, additional competition can drive existing businesses to improve their efficiency.

[9] However, in some less developed countries with extractive industries, MNCs have indeed come to impose conditions to weak and / or corrupt governments (Stiglitz, 2006).

Organization (WTO), which allowed such institution to apply sanctions to countries that infringe royalty payments of patent (Bhagwati, 2004: 276).

These problems must be addressed unilaterally and multilaterally, as their consequences affect millions of people in the poorest countries. One of these actions has to start from within the national governments themselves, because it is their laws and institutions that allow this type of abuse. On a multilateral basis, the WTO must implement clearer and fairer international rules on MNC activities. Some other actions have already been implemented such as the Foreign Corrupt Practices Act, which is supported by a large number of US companies, or the efforts of innumerable national and international civil organizations, which, thanks to technological advances, it is possible that the various abuses of multinationals are known around the world.[10]

Despite the possible costs of MNCs in the host country, what has been seen in the last two decades is that governments in LDCs have learned that MNCs, through FDI, can be helpful for their development. For example, during the economic development process in Brazil, former president Henrique Cardozo (1995-2002),[11] during his tenure, made a great effort to attract to his country US FDI (Gilpin, 2000). Similarly in Mexico, the different presidents in turn after José López Portillo (1976-1982), observed that a very centralist or nationalist position resulted in a decrease in (both, FDI and a development possibility). For this reason the policies of restriction to foreign direct investment have been decreasing in the last decades. According to UNCTAD (2015: 102), more than 1500 regulatory changes were made around the world from 2000 to 2014 on national FDI legislation, with only 16% of these changes being less favorable for FDI, while the rest meant greater liberalization.

Likewise, LDCs governments have learned that multinationals are a vehicle for international integration, facilitating the participation of a country in the international division of labor. In addition, those LDCs that are outside the global networks of MNCs will be at a considerable disadvantage, mainly because part of international trade consists of intra-firm transfers between subsidiaries.

However, one of the potential benefits of the impact of MNCs at the local level is located in the political context, especially from the point of view of creating conditions for the establishment of a more stable and deeper democracy, and for that we would return to

[10] See Stiglitz (2006) for proposals to reduce abuses of MNCs.
[11] One of the main leaders of the Dependency Theory, proposed in the seventies that multinationals were an instrument of US imperialism.

structuralist theories of political science, which argue that if they begin to create conditions for sustained economic development, and there is an equitable distribution of this economic wealth, would tend to create conditions to build a more stable political model based on the parameters of polyarchy. The idea of this approach is that a society becomes more stable and generates conditions of a democratic life by having intermediate societies supported by a robust and solid middle class, which allows larger contingents of citizens to participate in an orderly and completely free way.

Therefore, this perspective could be valuable as an element that would allow generating conditions for the establishment and embadding of democracy in Latin America, and in any LDC. Because it encourages and strengthens the middle classes, and generates conditions of political participation without corporatism or purchase of political consciences in exchange for economic donations or social programs.

This vision departs from the liberal tradition, especially from the North American democracy of the XVIII and XIX century, who develop the concept of intermediate societies, as those that give stability to democratic schemes since they regulate the struggle for the scarce goods of the society and allows a process of establishment of alliances and maintenance of a peaceful access to political power. Which making a clear reference to the utilitarian theories of the economy because they use the principle of the struggle for the scarce goods under an extremely individualistic society, made the society raise the self-organization of infinity of groups, which had the purpose of articulate and fight for the satisfaction of their specific demands

By linking these aspects, we could summarize that returning to the referents of capitalist economic conditions and merging them with the procedural institutional processes of liberal theories is how the concept of polyarchy is generated, as the emergence of this explanatory model of democracy, which it could be encouraged from this new international context where the MNC's could help to consolidate this framework that helps strengthen democracy in countries with economic weakness.

To sum up, it is possible to say that a series of requirements to be able to talk about a democratic system in terms of polyarchy are: (a) a consolidated capitalist economy and (b) institutional factors that allow the regulation of political life and free access and equal opportunity for the different members of society.

The logic of this perspective is that due to the inequality in the access to decision-making channels, the State must guarantee the minimum conditions for the greatest number of people to get involved in political life. The first aspect that must be covered is the development of conditions of economic benefit, because if does not exist, it may suffer a process of disaffection with regard to democracy or, even, may legitimize an authoritarian political system. Then democracy goes hand in hand with certain preconditions of a market economy where welfare conditions are generated for society in general.

Secondly, the system must comply with a series of requirements for the conditions of participation within institutionalized and organized channels to guarantee the development of a society with a degree of consolidation and rooting in terms of its democratic political practices.

In conclusion, MNCs have had positive effects in host countries, by creating jobs and in many cases contributing to the economic growth of those nations or regions where they are installed. Most criticisms of FDI make no sense when they are thoroughly analyzed, although the distribution of potential benefits of MNCs in the host country may be asymmetric and therefore controversial. In this sense, the abuses of MNCs cannot be ignored. It is here that civil society and national and international laws will play an important role in demanding and regulating such actions, and why not, help build a more consolidated democratic order.

V. The negotiating strategy of LDCs vis-à-vis MNCs.

The bargaining process between a host country and a MNC has been studied since the 60's and different models have been developed to study the advantages and disadvantages that arise during these negotiations. According to Bakir (2015), there are at least 4 groups of negotiation models such as the Bargaining Models that includes the Obsolesing Barganing Model, the Political Bargaining Model, and the Two-Tier Bargaining Model. A second type of model proposed by Bakir (2015: 69) is the State Capacity and State-Centric Governance Model, where "governance is defined as a goal-directed, state-led steering activity, with the need to establish collective goals and develop the means of reaching those goals". Third, Bakir (2015: 69) proposes a model based in the Administrative Capacity, where the "state strength is a function of bureaucratic centralization [that is, relational capacity], the quality of bureaucratic elites [that is, policy capacity] and the degree of control exercised by the state over financial resources' (that is,

fiscal capacity)". Finally, a fourth model based on the Institutional Capacity, where "institutions consist of formal rules (that is, legal/regulatory) and informal norms (that is, ideational) that influence the behavior of agents. They do so through the logic of instrumentality (that is, material environment) and/or the logic of appropriateness (that is, cultural environment)" (Bakir, 2015: 69).

For purposes of this article, we will be based on the Eclectic Approach or OLI Paradigm originally proposed by John Dunning (1988). This approach offers a unifying framework for understanding the extent and pattern of foreign owned activities, which are driven by three sets of advantages: Ownership, Location and Internalization (OLI) advantages. The presence or absence of OLI either encourages or discourages firms from undertaking foreign activities. In this sense, within the negotiations between an MNC and a host country governemt, each part tries to obtain the maximum concessions from each other. Based on the Eclectic Paradigm, it could be thought that the host country government has a relative advantage (L), since it can control the access to its market, labor, and raw material necessary for the proper functioning of an MNC. Also, if the host country is big interms of population, as in the case of India, the local market will also be a relative advantage (L) that the host country government can provide to the MNC. For example, according to the India Brand Equity Foundation (2015), multinational corporations have found a great advantage in India because of their advances in its democratic system, the business-friendly environment, but mainly the size of the local market. MNEs have found a market where it is produced in huge quantities, but also consumed enormously. With a population of 1.2 billion people, the local market is certainly an advantage of L for India.

However, in most cases the advantages of MNCs (O) such as technology, investment, access to international markets, etc. are often of vital importance for the economic development for the LDC´s, minimizing the possible bargaining power of its government. In this way, the L advantage is exceeded by the O advantage, that is, the MNC will have an advantage over the host country which is lacking of investment. According to Tarzi (2004), the economic power of the MNCs will be even greater once it enters the LDC market, where much of the domestic investment will be in the hands of the multinational and this will concentrate on the key sectors for development of the host country. For this reason, the concentration of FDI in important development sectors will give the MNC a monopoly power to control supply and domestic

prices; something that would not happen in a market where the internal competitiveness is greater.

On the other hand, Gilpin (2000) and Dunning (1993) suggest that LDCs can obtain greater benefits from MNCs, as long as the host country government modifies its negotiation strategy. In this sense, Tarzi (2004) proposes that for a LDC government to influence the behavior of an MNC it is important to observe and distinguish between the current power and the potential power of a host country government. The current power of a LDC government is the ability to exercise its bargaining power in order to obtain the best benefits of the MNC. This power is often limited by different events occurring at the international level (pressures from international institutions or the world economic situation) as well as national events (pressure from certain social classes or internal politics), which reduce the chances of obtaining better results in a negotiation with a multinational company. Unlike current power, potential power represents the relative bargaining power of a LDC government, which will be determined by four factors: a) the experience of local government, b) the level of competitiveness among multinational enterprises, c) the degree of economic uncertainty, and d) the type of FDI (Tarzi, 2004).

The level of experience of local governments means that most LDC governments often have weak institutional structures. This deficiency is interpreted as an institutional deficit that places host governments in a precarious situation to monitor and manage MNCs, that is, some LDC governments have little experience in controlling the activities of MNCs. A proposal to address this problem is that host countries improves the quality of their government institutions in order to have better oversight of multinationals and take advantage of the benefits they can provide (Globerman and Shapiro, 2002). This proposal not only benefits the institutions, the working population also applies new knowledge gained by working in the MNC while modernizing it. In order to obtain these benefits, it is necessary to have a policy open to FDI, so the government of the host country through experience and interaction with MNCs will incorporate new knowledge with the purpose to improve the control of multinational companies. However, if there is some kind of change in technology, which is faster than the host country's capacity to absorb it, it will again be at a disadvantage vis-a-vis the MNC (Tarzi, 2004).

Concerning the level of competitiveness among multinational companies, competition or lack of competition among different MNCs may affect the bargaining power of a LDC government. The nonexistence of competitiveness among MNCs will mean a weak negotiating

position for the host country. This is because multinationals are not pressured by other companies to expand and seek new market and production niches. Otherwise, the LDC government will have a better position at the time of the negotiation; in this case the multinationals will compete to enter the LDC market and will be able to select the company that brings the most benefits to the national economy. Likewise, the advantages that the LDC market can offer to multinationals (cheap labor, developed infrastructure, raw materials) are very important in determining the negotiating position of the host country government. If the investment made by the multinational is capital-intensive or requires skilled labor and the LDC market does not have it, the competition of the multinationals to enter that market will be limited, removing the possibility of negotiation from the less developed country government[12] (Tarzi, 2004).

Relanting to the economic uncertainty, negotiations between MNCs and LDC governments follow a pattern of behavior called "obsolete negotiation" (Combe and Muchielli, 1994; Tarzi, 2004; Gilpin, 2001; Levy and Prakash, 2003). According to this pattern, at the beginning of a negotiation, the LDC government will maintain a favorable investment policy in order to attract MNCs to their markets. This means that multinationals will have an advantage at the time of the negotiation, where they will look for the maximum benefits from the LDC market. As time passes and the projects invested begin to be successful, the initial advantage of the multinational will begin to change in favor of the LDC government. At this point, the host country will have greater advantages than the MNC, and the multinational will want to renegotiate the initial agreements (Tarzi, 2004). However, obsolete trading behavior was more relevant when FDI was concentrated in extractive sectors; now that FDI has been concentrated in manufacturing and services, it has lost relevance (Gilpin, 2001).[13]

With respect to the type of Foreign Direct Investment, the bargaining power of a host country government will depend to a large extent on the characteristics of FDI. These can be: a) volume of physical or fixed investment; b) cost-benefit; c) the degree of technological complexity of the investment; and d) the degree of the complexity of marketing (Tarzi, 2004). In this way, the multinational will analyze and evaluate the four variables, in order to determine the viability of the investment. If the costs are low and the required technology is simple, the LDC

[12] Under the OLI paradigm, this is interpreted as follows: MNCs compete to have an advantage in O and seek a host country that has the best advantage in L according to the characteristics of the investment.

[13] For example, a company that engages in manufacturing generally has more freedom of action than companies engaged in the extraction of natural resources.

government will have a favorable position in the negotiation since it has some favorable conditions for that type of investment, otherwise it will be out of the possibilities of attracting the FDI to its market.

In this way, it can be determined that the potential power is constructed from different positions in which LDC governments will observe and analyze their negotiation probabilities against MNCs. These positions will depend on what the host country governmet can offer and what the multinational can offer, up to Nash equilibrium.

As mentioned at the beginning of this section, the bargaining power of LDC governments is affected by different circumstances, whether due to internal difficulties or by agents outside the host country. Within the domestic difficulties that limit the bargaining power of the LDC governments are, in the first instance, their deficient institutions and laws, which do not allow an optimal handling and control of MNCs. Similarly, the lack of Research and Development (R&D) further weakens its bargaining power. There are also different trade union groups and social organizations that pressure governments to make forced decisions on FDI.[14]

In addition, the lack of competitiveness of local firms gives multinationals an advantage in order to establish themselves in and dominate important development sectors. Likewise, corruption is also a weakness that LDCs have. There is evidence (Windsor, 2016; Daniels *et al*, 2013; Egger and Winner, 2005; Tarzi, 2004) that corruption limits the bargaining power of the host country. Payments to officials are made with the intention of securing a business at the expense of competitors; facilitate government services that companies are entitled to receive, but which officials could delay, such as product registration, building permits or customs authorizations; or simply ensure the safety of employees and facilities. Furthermore, the change of government in the LDCs is often subject to an imbalance in the *status quo* between host countries governments and MNCs.

Concerning the international difficulties that may limit the power of negotiation of LDC governments are the global networks created by MNCs. These networks concentrate much of the international trade movement, and most LDCs do not have access to them (UNCTAD, 2015).[15] In general, the international difficulties that a LDC government may have will depend on the needs

[14] As it was the case in Bolivia in 2003, where indigenous peasant unions led by Evo Morales (now president of Bolivia) pressured the government to expropriate and limit the activities of MNCs in the extraction and commercialization of natural gas.
[15] See UNCTAD (2015) for further details on the flow of FDI.

of MNCs according to the technology, type of labor and the possibilities of the host country market to provide such demands. Likewise, the governments of origin of the MNC may cause some limitations on the bargaining power of the LDC government, by influencing national political aspects and generating instability.[16]

In this sense, the configuration of the negotiation process between the government of a LDC and the MNCs is based on the concept of opportunity cost. In the case of multinationals is given by its advantage in Ownership (O), and the advantage in the Location (L) offered by the country in which will decide to install its investment. In the case of the LDC government, its opportunity cost will be given by its advantage in (L) and the advantage in (O) offered by the MNCs. Therefore, the multinational will be in a better position when its opportunity costs are low and when the LDC government puts a high value on the economic and social contribution of the MNC. Otherwise, the LDC government will be in a strong position of negotiation when its resources are necessary for the MNC and the opportunity cost analysis is in its favor, that is to say, that it can obtain the benefits offered by the multinational.

IV. Conclusions.

This article has pretended to describe what a multinational company is and what effects it may have on less developed countries, particularly, the capacities and negotiation possibilities that the governments in these countries have with respect to multinationals in order to obtain the best benefits for themselves.

As it was described in the first and third sections, LDC government's views on MNCs have changed over time. During the early and mid-twentieth century, multinationals were seen as international agents of exploitation of the internal market. It was not until the late 1970s to the present, where LDC governments began to appreciate the benefits of multinationals. This change of vision coincides with the increase in the intensity of the globalization process, which, through trade openness and the deregulation of national financial markets, has allowed MNCs to spread around the world in markets that were previously closed to them.

[16] For example, in Chile, in 1973, there is evidence that the United States supported the overthrow of President Allende, in order to protect the interests of his MNEs in that country (Vidal, 2003).

Undoubtedly, the LDC governments, because of their own backwardness characteristics, are the most difficult at the moment to attract FDI to their markets, which, as demonstrated by empirical evidence, can have positive effects for economic development and serve as a link to join international trading and transaction networks. In the same way, the governments of the least developed countries are also those where the process of negotiation among multinationals is more complicated. In the fourth section, the different scenarios were recreated in which a LDC government could be found at the time of a negotiation. In this sense, it is possible to conclude that LDC governments must have an attractive advantage in Location (L) in order to be able to attract FDI.[17] Also, the bargaining power will depend to a large extent on the abilities of each of the participants in the negotiation. For example, it is important to know what can be offered to each other. The outcome of the negotiation will also depend on the competence and skill of the bureaucratic apparatus of the government that is carrying out the operation.

This is where the idea of multi-level governance used in a polyarchy vision is very useful for the processes of negotiation and implementation of the establishment of multinationals, which implies the recognition that the decision-making processes, the infinity of actors, the which do not necessarily respond to a hierarchical order, but act interdependently and each of them has a specific agenda, which tries not to import the cost in the negotiation process of the different groups and MNCs.

However, the process of globalization has modified the needs of MNEs, so the LDC Localization (L) advantage nowadays often does not meet the needs of multinationals, this is, the opportunity cost of an MNC dedicated to the manufacture of software, which requires skilled labor and technological advance, will be very high if the multinational decide to invest in a LDC, since it will not be able to provide such goods and would have to invest in the development of that technology. Therefore, LDC governments compete to attract FDI but they do not always have the necessary infrastructure, which distances them from convergence with the developed or emerging economies, becoming a vicious cycle of poverty.

In conclusion, LDC governments should improve their Localization advantages; for this they must create a competitive national market, so that multinationals are attractive to invest in that market. Thus, decision-makers in the LDCs should create public policies aimed at improving

[17] Advantages of the host country as fiscal incentives, natural resources, developed infrastructure, skilled labor or not, among others.

their competitive advantages by restructuring their entire productive, institutional and social system, giving priority to education, gender equality, legal certainty, incentives to foster the flow of FDI, in addition it is important to finding that niche in which they are competitive.

The scenario for LDCs is not entirely clear, since it is becoming more difficult to attract FDI to their markets because multinationals tend to settle mainly in developed and emerging countries, since these can offer better Location advantages than LDCs; and above all, because multinationals have changed its Ownership (O) advantages, changing the geography of FDI (Dunning, 2000). It should also be mentioned that a supranational agent, such as the WTO or another international organization, should be in charge of regulating FDI and MNCs in order to intervene in favor of the host countries and thus giving LDCs an opportunity to better face the process of globalization, and also, contribute to the construction of democratic conditions in these post-transitional economic and political contexts.

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