6 Interpretations and Implications for Future Development

THE OBJECTIVE OF NATIONAL ECONOMIC AUTONOMY

As the interdependence of the world’s economies has increased, the tension between governments and corporations has also increased. Where multinational corporations have been central to a nation’s economy, the tension has been particularly apparent. This is especially true in Third World countries, where the storm over multinationals has been most evident.

This tension has led Third World governments in some instances to joint international cooperation to curtail the power of multinationals. Among others, cooperation has included studies of transfer pricing, the formation of international commodity cartels, and organizing the US Center on Transnational Corporations. While important, by and large the collective success of such efforts has been modest. Accordingly, the search for economic and political autonomy has prompted developing countries to rely heavily on national policy.

The choice of policy depends heavily on domestic political forces, although external factors also can come into play. Under Allende, for example, Chile expropriated foreign investment essentially for ideological reasons. By contrast, the military regime which succeeded Allende reversed these policies, encouraging local investment by selling state-owned companies to private investors (including some public sales of stock) and allowing new foreign investment in some areas. More recently, with Chile’s external debt burden becoming particularly onerous, the Pinochet government was one of the first developing countries to allow its creditors to exchange foreign debt obligations into local equity positions.¹

A similar evolution of policies toward foreign involvement in the economy was experienced by Indonesia in the late 1960s and 1970s. Although after the 1965 coup, policy was reoriented to attract foreign capital to Indonesia. Suharto’s New Order government was somewhat unique in that it sought to tailor such investments toward

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specific national objectives. The speed with which the government has moved in this direction has been conditioned both by domestic political forces and the degree to which its economic strength has permitted it to tighten its bargaining position. Indonesia has not, for example, been in a position to take as hard a line toward foreign investment as has Mexico (at least through mid-1986), because Mexico's oil reserves exceeded those of Indonesia, especially if measured on a per capita basis. The Mexican leaders may have felt less dependent on foreign economic involvement to further their nationalist development strategy. Nonetheless, even in Mexico, where ideology is unusually important, a more moderate stand toward foreign investment has now been adopted because of softening oil prices and a heavy debt burden.

National political and economic autonomy are major goals for all countries, but particularly so for developing countries. The sentiment is especially strong in Indonesia, where the native population, or pribumi, is the focus of most political and economic objectives. Yet the larger goals are often moderated by a degree of pragmatism in the pursuit of specific goals, most notably a higher living standard for all, creation of new jobs for the growing population, and, to this end, diversification of the economic base away from the extractive sector.

To achieve these goals the country has a specific need to develop labour-intensive industries, the most promising of which are in the manufacturing sector. Although there has been a spectacular growth in manufacturing output in Indonesia during the past twenty years or so, the proportion of Gross Domestic Output attributed to manufacturing is still quite small. To increase the absorption of labour into the manufacturing industry, there must be an improvement in productivity, or else the wage scale and living standard will settle to, and remain at, the bottom of the heap internationally.

Like some other developing countries, and some not so underdeveloped, Indonesia could go it alone. Its leaders, however, have recognized that the country's local saving rate is simply inadequate to provide the investment needed to create enough new jobs and productive capacity to insure a rising standard of living. To offset this shortfall, the government has adopted the attitude that an 'appropriate' use of foreign capital can lead to more rapid development of the economy. Unfortunately, even in the case of Indonesia, where policymakers have generally made good use of limited financial resources, the country has become extremely dependent on foreign inflows of capital each year, mostly in the form of loans and grants. As a result,