Multinational Corporations, Taste Transfer and Under-development: A Case Study from Kenya

Steven Langdon

The multinational corporation (MNC) is the agency through which advanced technology is transferred to the underdeveloped countries. In the case of the soap industry in Kenya, MNC investment has resulted in increasing unemployment and regional inequality, has made little and possibly a negative contribution to the balance of payments, and has failed to make linkages with the local economy and especially its resources. In particular, the MNC, through its promotion of new ‘brand-name’ products, transfers tastes from advanced to backward capitalism, thus reinforcing the process of inappropriate technology transfer. Nationalisation and a controlled industrial strategy are options not open to Kenya given the nature of its existing class structure, reinforced by the MNCs and furthering their interest.

This article examines one important link between richer and poorer nations in the world economy. The multinational corporation (MNC) presently dominates the framework within which industrial technology transfer to poorer countries takes place. This role has led many economists to describe MNC investment as a central factor in generating economic development in such countries. Kenyan research suggests otherwise; it suggests that MNC investment distorts industrial growth in poor areas, and confirms their dependence and underdevelopment, rather than promoting the widespread effects of genuine development. The argument lays particular stress on product choice factors, in an analysis of choice of technique in less-developed countries. At the same time it emphasizes a new perspective on the role of MNC’s in such countries—seeing transnational firms as agents of inappropriate ‘taste transfer’ from the developed capitalist economies.
The analysis begins with a brief definition of the term 'industrial development', and with a discussion of the nature of the mnc; this section also introduces the case study of soap and detergent manufacturing on which the article concentrates. Section two compares in detail the industrial performance of mnc soap subsidiaries with that of locally-owned firms. An analysis of mnc impact on local firms follows. These issues are then related to the realities of the Kenyan political economy. The conclusion places the case study in a wider context, and suggests some of its theoretical and practical implications.

**Industrialization, the MNC and Kenyan Soap Manufacturing**

The article considers that genuine industrial development in poorer African countries should have relatively large employment effects, in terms of jobs provided per unit of capital invested; should generate considerable local linkage effects, particularly backward linkages to indigenous resources; should minimize wastage of resources through capacity underutilization, changeover costs, advertising expenditure, etc; should have a relatively positive balance-of-payments impact, considering import intensity, exports, repatriations by foreigners, et al; and should contribute more to egalitarian social and regional distribution effects than most industrialization has so far done in Africa.

In assessing the performance of mnc subsidiaries against such standards, two aspects of mnc enterprise are important. First, the mnc is characterized by increasingly centralized control exercised by head office over subsidiaries. The effort is to reduce corporate risk and increase profitability and predictability by planning world-wide co-ordination of marketing, production, financing, research, etc.—all in a context where 'the parent is seen as the profit centre'. This puts institutional pressures and constraints on subsidiaries in a less-developed country that differ from the forces shaping behaviour of a locally-controlled firm. Second, and more related, mnc direct investment in poorer areas does not transfer capital alone (as, for instance, with nineteenth-century British railway investment abroad), nor a given industrial technology alone; it transfers a package, a whole way of doing business that has given the mnc the market power elsewhere which underlies its world expansion. This package usually involves: the production of certain sorts of final products only (those sold in mature capitalist societies, with brand differentiation and standardized quality specifications); a marked emphasis on sophisticated, expensive marketing—to create tastes for those products certain established approaches to labour relations; and reliance on managerial/technical skills and experience accumulated in the richer countries. Again, this framework shapes mnc subsidiary behaviour into distinct patterns, and it also provides mncs with special economic power compared to local firms.

The following sections show how these aspects of mnc enterprise, within the structure of international capitalism, can distort the industrialization of a less-developed country. The case in point is the soap and detergent industry in Kenya. It is a useful case to study because, unlike many industrial sectors in poorer countries, where
indigenous manufacturers are rare, the Kenyan soap industry includes various resident-owned firms, as well as three international soap producers. This ownership structure permits an examination of mnc operations in comparison to an alternative, thereby highlighting by contrast certain characteristics of mnc subsidiary performance.

The soap industry is a limited but expanding part of Kenyan manufacturing. In 1971, it comprised 18 firms, with 860 employees, producing 27,434 metric tons of soap, in three distinct but overlapping segments of production: laundry soap, detergent, and toilet soap. To a marked degree firms specialize on one or two segments (an important point stressed throughout the article); but some firms make all three products, plus related items like toothpaste, margarine, cleansing powder and shampoo.

Until World War Two, all Kenyan soap factories were locally-owned. But in the fifties and sixties mnc soap firms entered the industry, and as of 1973, the mnc sector, and one mnr: in particular, clearly dominates. The local firms that do operate are now largely Asian-owned, though in the past some were owned by resident Europeans; at least one relatively large local firm, however, is African-owned.

The analysis that follows is based on interviews with all three mnc subsidiaries, and with ten locally-controlled firms. The original sample of local firms included all those listed as soap manufacturers in the 1970 Register of Manufacturing Firms, though several enterprises were later eliminated because they had ceased operation or regarded their soap production as a very marginal part of their overall activities. It proved impossible to interview two of the medium-sized firms remaining, and one new local soap firm was added to the sample. Of the ten enterprises covered, one was owned by African citizens, four by Asian citizens and five by Asian non-citizens. Interviews were held with firm managers in each case (usually owner/managers), and were supplemented in all but one case by factory observation. In the case of the mnc subsidiaries (one U.S. controlled, two British controlled), interviews were with the local managing director of each company, plus other senior executives, and these were also supplemented by factory observation. Valuable financial information, particularly on the operations of the largest soap subsidiary, came from the files of the Companies Registry in Nairobi. There is inevitably a certain subjective quality to the replies of some managers on some questions in a survey such as this, so the analysis relies more on the order of magnitude of responses rather than the precise details of enterprises' financial accounts.

Local Firms and Subsidiaries Compared
This section examines the two sets of firms in terms of the criteria of industrial development suggested above. In each case, comparative shortcomings in mnc performance are evident.

Employment Effects: Marked differences exist in production techniques — and consequent employment effects — among Kenyan soap firms. Many of the smaller local factories, with 3—30 employees and sales of K.Shs.172,000/= to 2,500,000/= a year, rely on hand methods
of soap making. Raw materials are manually carried to mixing vats; mixing may even be done by hand; the result is dropped into metal containers, which are manually pushed aside for natural drying; men then use wire to hand-cut the large soap blocks into bars; and these are stamped in a hand-run press, hand-wrapped and hand-packed into boxes — which are manually transported to storage areas. Some firms pump in their raw material for mixing and use mechanical mixers in their vats, but their basic process remains highly labour intensive. Six of the ten local firms surveyed fall into this non-mechanized category.

At the other extreme is the mnc sector. With production split into five stages — material receiving, material processing, material handling between processes, packaging, and product storage — each stage shows considerably greater mechanization than in the local manual-processing firms. For toilet soap production, for instance, raw materials are automatically pumped to tanks, and mixed; then piped to mechanized production lines where, under the direction of as few as two men, an integrated operation takes the wet mixture, machine-dries it, chips it, dyes and perfumes it, compresses it into bar shape, cuts it into tablets, stamps these by brand, wraps them and conveys them to cartons; fork lift trucks may then carry the cartons for storage. The mnc subsidiaries are not, on average, as automated as their associates in Western Europe — they use more labour in handling, for instance — but they are certainly much more mechanized than local hand-process factories. And they are becoming increasingly automated year by year. One firm, for example, which now uses a relatively labour intensive bagging process to finish drying its detergent, is introducing a mechanized conveyor-belt system instead.

Between these two extremes are those local soap firms that have moved from primarily manual to primarily mechanical production. These local firms are, on average, larger than the non-mechanized firms, and smaller than the mnc subsidiaries. (Employees per enterprise average: mnc subsidiaries: 328; mechanized local firms—57; non-mechanized local firms—12.) However, the size contrast is, in fact, not as clear-cut as these statistics suggest. The largest local firm surveyed is bigger, in terms of employees and output, than two of the subsidiaries; while the smallest mechanized local firm has fewer sales and employees than the largest non-mechanized local firm.

These firms have mechanized the mixing process, the soap-drying process, and the bar-shaping and cutting process; they may also have mechanized the packaging-wrapping and bar-stamping process to some extent. They remain, however, distinctly more labour-intensive than the mnc sector. This is true particularly at the packaging-wrapping stage, where hand-wrapping is commonly done, even for many toilet soaps; it is also true at the storage and material receiving stages.

These differences in labour usage show up statistically in comparing the three sets of firms. Taking capital employed per employee as a measure, table one shows that capital invested in local soap factories generates more employment. Because much of the capital in local
firms (particularly those that have mechanized) has been invested more recently, it is probable, too, that the table understates the contrast between local and foreign factories.

Table 1: Kenyan Soap Industry Capital/Labour Ratios 1972

<table>
<thead>
<tr>
<th>Category</th>
<th>Capital Employed per Employee</th>
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<tbody>
<tr>
<td>MNC Sector</td>
<td>46,821</td>
</tr>
<tr>
<td>Average for Local Firms</td>
<td>36,275</td>
</tr>
<tr>
<td>--for local mechanized firms</td>
<td>38,782</td>
</tr>
<tr>
<td>--for local hand-process firms</td>
<td>28,408</td>
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Source: Kenya Companies Registry, Nairobi; firm interviews

This table covers the largest mnc subsidiary, four local mechanized firms, and six local non-mechanized firms. The statistical results are for enterprises as a whole (this is true throughout the article), as it was not possible to isolate soap-manufacturing sections alone of these operations. 'Capital employed' is understood as fixed assets plus current assets less current liabilities; this introduces ambiguities, since fixed assets may represent either a depreciated original cost figure or a valuation figure, but the measure does seem to involve fewer difficulties of this sort than others that could be used (such as equity capital).

MNC characteristics underlie this differing employment impact. One key factor is the particular sorts of products the mnc package transfers. The source of mnc market power in world soap manufacturing are sophisticated, brand-differentiated, secret-formula toilet soaps and detergents; so these are the products the mnc sector mainly makes in Kenya. And such product choice shapes employment effects. One cannot produce non-soapy detergents with hand-mixing vats and cutting wire; highly capital-intensive machinery is necessary (Detergent-making areas are, in fact, the most automated parts of mnc factories in Kenya). Similarly, the standardization and quality-control required for international brand-name toilet soap dictate automated techniques. On the other hand, simple laundry soap can be made effectively by labour-intensive methods. Thus mnc soap firms are more capital-intensive because of the sorts of products they choose to manufacture.

Product choice is not the only factor involved, though — not least because the ability to choose what to produce depends on aggressive marketing techniques and abilities. This mnc emphasis on marketing is important in shaping production techniques. Sophisticated, smart-looking packaging is a major part of this aggressive approach, and such packaging usually requires mechanization. Thus the small cachet-style packages used for mass sale of tiny quantities of detergent in rural Kenya could not be filled and closed effectively by hand. Subsidiaries also say that hand-wrapping of toilet soap results in an inferior appearance for the tablets. It is true that scale of production is another consideration in the choice of packaging technique — low
levels of toilet soap output, for instance, may make fully automated wrapping unjustifiable, but concern with brand-names and product differentiation seem a more important factor. Two firms surveyed, for instance, produce about the same amount of toilet soap — but the local firm uses very labour-intensive packaging techniques, while the mnc's system is highly automated.

The mnc decision-making structure further shapes such choices. One subsidiary reported that it had strict production guidelines from head office: based on home country experience, the parent makes growing labour productivity, based on maximum labour force reduction, a main criterion by which it judges the performance of subsidiary personnel world-wide. A local executive in Kenya thus explained why his factory was so highly automated in the following terms:

Mainly because we have a long history throughout the international firm of being very, very aggressive about the numbers of people we employ... It's a corporate objective, which we have to follow... Labour costs are insignificant here — labour costs including benefits are less than one per cent of variable costs. And on that basis we spend an inordinate amount of time searching around for labour reductions. But this is a thing we are expected to do. And if I don't do it in my job, then I'm not doing my job right so far as (head office) is concerned. So basically it's an objective which we have which is in conflict with what this country needs.

There has been a 19 per cent decline in this firm's labour force in the last five years despite marked increases in sales and capital employed.

The mnc's worldwide structure is also important in another respect. The small (by world standards) capital requirements for any given piece of mechanization by an mnc subsidiary in Kenya can be readily met, either through the mnc structure directly, or from local capital sources on the basis if secure parent guarantees. In contrast, access to capital is a much more important constraint for local firms contemplating mechanization. One local soap industrialist, for example, explained that he would have automated his packaging process as the mnc subsidiaries have done, but his firm simply could not finance the capital expenditure involved.

The mnc soap firms, then, are significantly less labour-intensive than their local counterparts. The reasons for this are related to the characteristics of mnc direct investment — to the product-choice and marketing behavior implicit in the mnc package, and to the easy access to capital, facilitated by the mnc's global structure and its high degree of centralized "head office" control.

Linkage Effects: Notable differences also exist in the linkages generated. One measure of this is the percentage of raw materials imported by each sector. Some 75—90 per cent of all such inputs are imported by the local non-mechanized factories.

Product choice is again a factor here. The phosphates, sodium sulphate and caustic soda used in detergent manufacture must come from a large-scale chemical industry, which doesn't exist in Kenya; whereas most inputs for basic laundry soap — coconut oil, tallow, diatomite — are simpler to produce and can be obtained locally. Similarly, the
internationally-branded nature of MNC products makes local supply more difficult — local tallow, for instance, is considered unsuitable by the MNC firms for manufacturing quality-appearance toilet soap.

Choice of manufacturing technique, itself, is another determining factor. Machine-made soap uses far more tallow relative to vegetable oil than hand-made soap does, and since local supplies of tallow are more restricted than local supplies of coconut oil, mechanization inevitably increases the import content of inputs. Thus local mechanized firms import a percentage of raw materials of the same order (75–90 per cent) as the MNC firms.

In considering backward linkage effects in developing countries, though, it is important whether or not firms are themselves active in directly investing in source-of-supply sectors. In this regard MNC soap firms in Kenya seem considerably more reluctant than their mechanized local counterparts. No MNC subsidiary has made a direct investment to develop local raw material sources for soap production; but three of the four mechanized local firms surveyed have made or are making investments in oil-milling, to organize the supply and processing of local coconut oil. At least one large local mechanized firm not surveyed is doing likewise. MNC firms tend to extend their production horizontally to other final consumer goods — fruit drinks is one such recent example — rather than undertake vertical integration.

Again this reflects the differing patterns of integration into the international economy. MNC subsidiaries have expert and comprehensive entry to the world market through their parent organization; so imports are easily organized, often at low bulk-rate prices for the whole MNC group. Moreover, the greatest source of potential profit for a new subsidiary investment lies in the production of internationally-branded goods, already proved elsewhere in the world organization. On the other hand, local firms have better access to the local market than they do to the world market, and more market power vis-a-vis local suppliers (like peasant coconut producers) than vis-a-vis international suppliers. Nor have local firms easy access to a wide range of established final products in which to invest, so that their best profit opportunities rest in vertical integration to cut costs in the particular branch of industry they know well.

Other parent policies also influence subsidiary behavior. One soap subsidiary in Kenya must buy inputs from an approved list of international suppliers — unless it goes through a long approval process with the parent to authorize a local supplier, and in a busy management environment, convenience seriously discourages such extra efforts. In some cases, head office policy may directly discourage local linkages. Company strategy in one MNC surveyed, rejects vertical integration; Kenyan management stress this parent policy to explain their failure to invest directly in the local coconut industry. Moreover, even of parent policy does favour such integration, that strategy will operate on a world level, and may therefore inhibit local backward linkages; the parent company may be profiting from its Kenyan subsidiary through the sale of inputs to it from elsewhere in the world organization. In this case, the subsidiary would purchase
a given raw material from associate companies abroad rather than
develop local sources. Thus a senior official in the Kenyan Ministry of
Finance and Planning has suggested that this explained the under-
development of Kenya's oil seed industry. He felt that one large soap
subsidary had an interest in buying from parent-owned oil-seed
plantations abroad.

Overall, then, mnc subsidiaries seem significantly less active than
local mechanized firms in direct linkage investments, and the nature
of mnc soap production offers fewer linkage possibilities than local,
particularly non-mechanized, soap production. This is true of linkage
possibilities for capital goods as well as for inputs. Most of the
 Sophisticated equipment used in brand-name toilet soap and deter-
genent manufacture is well beyond the present capabilities of Kenyan
industry; but the simple equipment used in less-mechanized operations
either has been or could be made in Kenya. Furthermore, those
 linkage possibilities that mnc subsidiaries do offer — for fancy pack-
aging and printing, for instance — are exploitable primarily by other
mnc — packaging and printing ink — subsidiaries, and such subsidi-
daries in turn rely on capital intensive production techniques with
few potential backward linkages in a poor country. By contrast the
 linkage possibilities of local firms — for coconut oil, wood fuel and
simple capital goods — are exploitable primarily by smaller-scale,
labour-intensive local enterprises, with more potential backward
linkages.

Wastage of Resources:
In contrasting the efficiency with which firms use scarce resources in
Kenya, two issues deserve attention: 6 Capacity utilization, and
advertising expenditure. The mnc sector displays shortcomings on
both counts.

The first issue is not as critical in soap manufacturing as in some
other mnc-dominated parts of Kenyan industry. The largest mnc
subsidiary and the two largest local factories surveyed use a three-
shift system for soap production. Though local non-mechanized
firms use only one shift, the largest item in their capital equipment
 cost (drying containers) is in use continuously. Even so, some problems
of capacity underutilisation in subsidiaries arise as a result of high
time-costs involved in regularly switching from one product type and
package size to another, as a result of extensive market differentiation.
Changeovers add ten per cent to detergent costs in one firm, and
create delays of up to 24 hours on toilet soap lines in another. In the
 case of detergents, for instance, the desire is to colour-differentiate
 basically indetical products for marketing reasons.

This is a familiar part of the pattern of monopolistic competition
which mnc's practise in richer countries. In Kenya as elsewhere the
pattern stresses heavy advertising to promote the differentiated brands
MNC soap subsidiaries in Kenya spend, on average, about six per cent
of their annual turnover on advertising — compared with under one
per cent spent by local firms. Thus mnc soap advertising expenditures
are around twelve million shillings a year, much more money, for
instance, than the 7.5 million shillings allotted in the last Kenyan
Development Plan for five years of government construction of those rural health centres described in the Plan as "the key elements in health services for non-urban areas, which contain over 90 per cent of the population." Such priorities must involve a socially wasteful allocation of resources.

This advertising expenditure is, moreover, a critical element in the mnc soap sector's overall impact in Kenya. It must be seen as a central factor in the transfer of tastes to the country from developed capitalist societies. Thus one subsidiary chief executive explained that his firm put "considerable" emphasis on advertising "because we're building new markets, building new habits." And the managing director of another subsidiary stressed the same theme:

The thing that has happened over the last three years is that by advertising and marketing our products, and building up distribution, we have in fact increased the market in the product categories in which we compete. We've seen a phenomenal growth... in the toilet soap and detergents markets.

Advertising, then, has been crucial in generating local demand for sophisticated, well-packaged, mnc-type products — with their associated employment and linkage weaknesses.

This subsidiary emphasis on advertising lies at the heart of the wasteful product differentiation noted above, and it directly undercuts the growth and profitability of the local soap firms, although it has been suggested that their expansion would be more beneficial for Kenya's industrialization. But this misallocation of resources through advertising and excessive differentiation appears implicit in the mnc's way of doing business.

**Balance of Payments Effects:**
Since Kenya has experienced serious foreign exchange constraints recently (especially in 1971), it is useful to compare balance of payments effects. One aspect of this has been partially considered when it was shown that the import intensity of mnc raw material inputs is significantly higher than that of local non-mechanized firms, as well as of fuel inputs. Hence five local firms in the sample used local wood ("kuni") for fuel, providing in the process a backward linkage for Kenyan saw mills and small-scale woodcutters.

The export performance of mnc firms does nothing to outweigh this comparative import intensity. Soap subsidiaries export no more than 0.5 per cent of their turnover outside East Africa. Again, the mnc's global structure is the key factor here, with all mnc soap firms working within parent-controlled export restrictions. The logic for mnc organization urges this: 'If you are producing a product like... [brand name toilet soap] in perhaps 80 countries of the world,' explained one executive, 'you have to have this, in effect, tribal stamping ground. Otherwise you'd have economic anarchy.' The result of such world co-ordination for Kenya is evident in poor mnc soap export earnings to counterbalance the high import content of such production.
Finally, there are the permanent foreign exchange drains inevitably associated with direct foreign investment. Such surplus repatriation is an obvious cost of MNC industrialization and should ordinarily cause little comment, since it is implicit in MNC operations. But when such payments reach the proportions prevalent in Kenyan soap manufacturing, they take on new and compelling importance.

There are many channels by which multinationals may profit from their subsidiaries — dividends, royalties, management and technical fees, contributions to parent research and overhead costs, interest on parent loans, as well as better-disguised transfer pricing profits on parent-to-subsidiary sales of inputs and machinery. Straightforward remissions alone, however, form a dramatic picture in this case. The 1972 profits after tax for the largest soap subsidiary in Kenya totalled 53.5 per cent of its capital employed; and translating such surplus appropriation into an annual yearly foreign exchange drain for 1972 to 1973, after all Kenyan taxes, the two larger soap subsidiaries transferred some K.Sh. 10,900,000/= (over UK £620,000) to their parents in the shape of dividends, royalties and fees. Such a figure represents 57.7 per cent of the parent equity and loan capital invested in the subsidiaries. It means 5.6 per cent of gross sales by these firms is a direct foreign exchange cost. As against that drain, the parents retained earnings in Kenya in the same period representing only 13 per cent of their investment (or 1.3 per cent of gross sales).

An historical analysis of the capital inflows and outflows to and from the parent shareholder in the largest soap subsidiary makes the same point more starkly, as table 2 shows.

<table>
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<tr>
<th>Table 2: Parent Co. Capital Inflows and Outflows in the Largest Kenyan Soap Subsidiary 1957 to 1972</th>
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| **Inflows:**
| Equity invested as of 1956                                   | Kshs |
| Loans made                                                   | 4,920 |
| Retained Earnings: reserves as of 1956                      | 8,520 |
| net profits retained                                         | 1,680 |
| Outflows:
| Loans repaid                                                | 7,600 |
| Dividends remitted                                           | 3,600 |
|                                                           | 51,500 |
|                                                           | 55,100 |
| **Source:** Kenya Companies Registry, Nairobi                |

This table ignores fees, royalties and interest on loans. It also covers only the parent share in equity, dividends, reserves and retained profits (i.e. 55 per cent of the total in each case); and it ignores the withholding tax of 12½ per cent on dividends, introduced in 1971.

There are, then, significant negative balance of payments effects associated with MNC soap subsidiaries in Kenya.

**Distribution Effects:** There is evidence that MNC soap firms contribute much more than local firms to the evolving income inequalities
in Kenya. Local firms, for one thing, seem to have emerged in response to local opportunities perceived by entrepreneurs throughout the country. So, although local soap production is important in Nairobi, relatively large soap factories have also developed in Mombassa, Kisumu and Bungoma, along with smaller operations in Nakuru, Karatina, Kisumu and Mombasa. In contrast to such regional decentralization, all mnc soap production is located in Nairobi—though those facilities produce for the national market. The benefits of soap industry wages, incomes and input purchases are therefore heavily concentrated in Nairobi; high subsidiary profits represent a transfer from the poorer periphery to the more prosperous Kenyan metropolis; and in so far as the subsidiaries are blocking the growth of the more decentralized local firms (see Section III below), the mnc presence is helping to increase regional inequality in Kenya.

This mnc location policy reflects the international firm’s institutional framework. The subsidiary is designed to produce more sophisticated products—which inevitably find more concentrated markets in sophisticated Nairobi—not least because the media for ‘taste transfer’ advertising are concentrated there. Subsidiaries use capital intensive production techniques—and therefore need the well-developed repair and replacement infrastructure of Nairobi. The mnc’s need for constant parent-subsidiary communication and co-ordination requires Nairobi’s infrastructure for communication and international travel. Finally the mnc emphasis on close political contact with government (discussed in Section IV below) also works best from a location in the capital. All these factors underline the concentration of soap subsidiaries in Nairobi — and the growing regional inequality associated with it.

Growing social inequality may also be traced to mnc entry. One fundamental feature of Kenyan life is the emergence of a very highly paid African managerial/professional class, and mnc subsidiaries share considerable responsibility for this. Two of the mnc soap firms, for instance, have established international salary scales for their managers, so that a local Kenyan manager gets exactly the same as his counterpart in Western Europe or North America, even though according to the ILO Report most Kenyan households earn below £60 a year. The impetus such a system gives to social inequalities is important, particularly as these transferred mnc salary levels are central in determining remuneration for other senior Kenyan personnel in the public and private sectors. ‘Poaching’ back and forth is common among private and public employers. So managerial/professional salaries tend to rise to the highest common factor — which is the salary scale transferred directly from developed countries by many multinationals. This market effect is helped by the government’s use of the African executives of such subsidiaries to help in determining public sector salaries as indicated by the Ndegwa Commission on public service structure and remuneration.

The soap subsidiaries have also contributed to the growth of a small, well-off labour aristocracy, whose high wages, relative to rural income possibilities, are one factor in the growing economic imbalances the
ILO identified in Kenya. As a deliberate labour relations strategy, mnc soap firms pay very generously (see table 3 below), and can afford to do so because of their market power. These generous wages then become a further factor encouraging more mechanization, which results in fewer workers benefiting from the wages. This high payment is not, as sub-section A of the table shows, merely a function of the regional inequalities already noted; even within Nairobi, subsidiaries pay significantly more than local soap firms. Nor, as sub-section B suggests, is the differential based simply on skills associated with mechanized as opposed to non-mechanized production.

| Table 3: Soap Industry Average Wages per Month, for Production Workers 1972 |
|------------------------------------|------|
| MNC Sector                         | Kshs |
| Average for local firms            | 582  |
| A - Local Nairobi firms only       | 322  |
| - Local Mombasa firms only         | 274  |
| - Local firms outside Nairobi & Mombasa | 212  |
| - Legal minimum wage in Nairobi    | 175  |
| B - Local mechanized firms only    | 299  |
| - Local non-mechanized firms only  | 245  |

Source: Interviews with firms, 1972 to 1973

Overall, then, mnc soap companies generate much less equitable distribution effects than local firms. The latter are more regionally decentralized and pay employees rather closer to normal income levels in the country, while the former are in Nairobi, transfer very high salary levels for their local executives, and pay relatively substantial wages to a restricted work force increasingly better off than the majority of Kenyans.

These shortcomings of subsidiaries should be viewed as part of a single package, the aspects of which have been separated for ease of analysis only. Thus subsidiary product choice and choice of technique, for instance, are intimately tied to the distribution effects, both in the sense that sophisticated product choice and mechanization permit and encourage a small but highly paid work force concentrated in Nairobi, and inequalities in Kenya are important in providing a market for those sophisticated, semi-luxury mnc goods. Similarly, the subsidiary linkage effects and balance of payments problems are mutually interacting, in that the latter are partly caused by weaknesses in the former, and that the high profitability expectations that underlie large mnc surplus remission also discourage subsidiary investments in potential backward linkages, which might not generate such high rates of return. The considerable expenditures on advertising also cut across all of these separate categories. The “taste transfer” they aim at permits subsidiaries to market their internationally standardized products; they also help to provide the market-power which provides the large mnc profits. Yet advertising depends for its success on the mnc’s ability to brand-differentiate in production, to package attractively, and so on.
The weaknesses in subsidiary soap manufacturing, compared to local production, are thus interdependent, mutually-associated consequences of the operation of the multinational corporation. They are consequences that ought to excite scepticism about the net contribution of much mnc direct investment in less-developed countries.

The MNC Impact on Local Firms
As important as these comparative disadvantages of subsidiary operations are the longer-run effects of the mncs on the local soap firms. There is evidence that the subsidiaries are undercutting the growth and profitability of the local soap industry, and that local firms are themselves being forced to conform more and more to mnc patterns of industry if they are to prosper. Both trends, in so far as they further mnc-type industrialization, are generating an increasingly distorted industrial growth in Kenya.

Table 4 below summarizes the somewhat limited results of the survey on this issue and indicates that most local firms have grown relatively less than the mnc sector; more important, profitability has declined markedly for most local firms as well. These trends were confirmed by most other local firms surveyed, even if they were unable to quantify their changing positions for statistical analysis; many local firms also stressed the reduction in the number of local soap factories, especially in Mombasa, over the recent period of subsidiary expansion. Significantly, in the table, the only local firms to match mnc growth have had to sustain operating losses in the process, while the mnc sector has shown rapid growth and increased profitability.

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<tr>
<td>Multinational Sector</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Largest firm</td>
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<td>29.3</td>
<td>53.5</td>
<td>15.1</td>
<td>21.8</td>
</tr>
<tr>
<td>Mechanized Local Firms</td>
<td>Average for 3 firms</td>
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<tr>
<td>Firm A</td>
<td>+125</td>
<td>9–12</td>
<td>(13)</td>
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<td>Firm B</td>
<td>+372</td>
<td>5–10</td>
<td>(20)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Firm C</td>
<td>+51</td>
<td>6.9</td>
<td>(4.3)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Non-Mechanized Local Firms</td>
<td></td>
<td>15.9</td>
<td>3.9</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Firm D</td>
<td>+67</td>
<td>n.a.</td>
<td>n.a.</td>
<td>8–10</td>
<td>8–10</td>
</tr>
<tr>
<td>Firm E</td>
<td>–41</td>
<td>n.a.</td>
<td>n.a.</td>
<td>8–9</td>
<td>6–7</td>
</tr>
</tbody>
</table>

Source: Companies Registry, Kenya; and survey of local firms

Note that local firm B in the table spent a considerable sum on machinery in 1971, and moved from the non-mechanized to mechanized category. This helps to explain its rapid growth in turnover from 1968 to 1972.
The survey suggests that while it is non-mechanized firms which have had their growth blocked most by mnc expansion, it is the mechanized local firms that have seen their profitability cut most severely. This conclusion is supported by comparing performances in the most recent financial year. Two mnc subsidiaries had average profits before tax of over 20 per cent of turnover, six local non-mechanized firms suffered average losses of about 4 per cent of turnover. Most local firms recognize the dynamic of the situation; they say their growth and/or profitability has been undermined by the mnc expansion.

Eight of the ten local firms surveyed stressed the large-scale advertising of the mnc sector, particularly the detergent advertising of the largest subsidiary, as an important problem they faced. Only one local firm suggested that mnc advertisements had widened the general market for soap and benefited it in the process. Other mnc advantages were also mentioned. Local industrialists spoke of the mncs' easy access to capital, their long experience and the expertise they could call on elsewhere, their ability to purchase low-cost raw materials, and, of course, their possession of the brand-names and the secret formulae their advertising supports.

This dynamic leads to increasingly inappropriate industrialization, through the growing dominance of the mnc subsidiaries and through the fact that it pushes local firms in the same direction in their operations. Thus the first machine-made laundry soap in Kenya was mnc produced and that initiative was central in forcing many local firms to mechanize. This impetus was furthered by the mnc advertising campaigns, stressing the general importance of appearance in buying soap — so that by now most hand-production factories cannot sell their output, even at reduced prices, in urban markets in Kenya. This is despite the fact, conceded by some local manufacturers who have mechanized their factories, that hand-processed laundry soap is functionally superior to its machine-made equivalent; it has better quality ingredients (with more coconut oil and less tallow than is used in mechanized production); and it lasts longer in cleaning (since hand-mixing of raw materials results in a rougher surface, which wears better than smooth machined soap). Nevertheless, one measure of the extent of the pressure to mechanize is that all six of the non-mechanized local firms surveyed had either ordered automatic machinery, wanted to do so, and saw no future for themselves if they could not do so.

Mechanization of the production of laundry soap is not enough to survive, however — as witness the losses suffered by local machine-process firms. The pressures of the mnc advertising, and their cut-throat pricing of laundry soap, push local mechanized firms into toilet soap or detergent production in defence. Only there do the substantial profit margins of monopolistic competition seem to offer prospects of a good future. Thus four of the local enterprises surveyed had either moved in that direction or were doing so.

Such a move, however, places them increasingly in the mnc mould, as indicated by their interview responses. To compete with sophisticated brand-name mnc products, local firms require similar mechanized production and packaging techniques, and they become much more
import-intensive as a result. They probably have to move to large-scale advertising to succeed. They may have to hire some expatriate technicians. They have to spend more money on fancy packaging. Because of the difficulty of competing with the mnics, they have to make an even wider range of products, colours and sizes than the subsidiaries — with wasteful changeover costs. And to build up their turnover, they probably either have to do sub-contract work for other international soap firms, who want to sell but not manufacture in Kenya’s protected market, or to produce international brands under licence. In either case, they become subject to many of the same production, purchase and marketing constraints as mnc subsidiaries, and start to generate foreign exchange flows abroad.

Compared to mnc producers, such local firms will still be subject to fewer of the constraints identified in this article; they will generate fewer flows abroad; they probably will contribute less to growing inequality; and so on. But, as a result of mnc dominance, their potential impact on development in Kenya will have been weakened and distorted. In that sense, the mnc expansion in the country contributes to the development of underdevelopment.

The Political Economy of MNC Direct Investment
This dynamic of underdevelopment reflects a great deal besides the nature of the mnc. The mnc is, after all, only one means by which Kenya is incorporated into the international capitalist economy. The mnc has somewhat amended the structure of Kenya’s integration into that larger system, but such amendments have been within the broader context of earlier and enduring dependency relations between Kenya and the centres of the international economy. Those wider relations have also shaped the character of mnc amendments to the Kenyan political economy. Thus the present mnc impact reflects a colonial past when “taste transfer” operated powerfully through the medium of large international trading firms, working in close cooperation with the colonial regime; it reflects a cultural dependence based on that history, which underlies certain product and brand preferences, it reflects a skewed income distribution and an associated class structure, partly inherited but increasingly Africanized, which generates effective demand for various luxury goods — like toilet soap and detergents, and it reflects many consequent realities of contemporary political economy in Kenya, for example, the continued metropolitan dominance of Nairobi, and the rejection of more egalitarian options in development planning.

More narrowly, the distorted pattern of industrialization described above has depended on certain government policies. Capital cheapening policies that have encourage mechanization, for instance, investment allowances, over-valued exchange rates and parastatal loans; import-substitution policies weighted to encourage final-stage manufacturing and discourage local production of inputs; patent policies which, in restricting local access to foreign technologies and brand names, protect mnc market power and competitive advantage; and laissez-faire approaches to the regulation of mnc operations in Kenya. Similarly, the performance of firms could have been changed somewhat by other government policies, had these existed; for instance,
industrial location controls, export promotion incentives, or an incomes policy.

Full consideration of this political economic context is beyond the scope of this article. But it should be recognized that the MNC sector does not simply respond to the environment. The sector also plays a critical role in shaping the political economy in its own interests. This is true in an important broad sense: subsidiary distribution effects reinforce a class structure which both establishes demand for MNC-type products, and leaves much political power in the hands of an African managerial class and a labour aristocracy which are associated with MNC expansion in Kenya. It is also true in a narrower sense: the MNC institutional structure gives subsidiaries special advantages in influencing particular lines of government policy.

First, in negotiations and bargaining, the MNC subsidiary can call on world-wide resources of expertise, experience and manpower. The government of a small developing country (or local firms in such a country) cannot do likewise. The Kenyan government has found this an important constraint, according to Treasury officials, after taking a majority shareholding in certain firms. This large manpower advantage is reinforced by the power implicit in the MNC’s enormous financial resources, and by the relatively great importance its local operations can have in a small, poor country. Secondly, because of the very high salaries they transfer, subsidiaries have been able to attract influential and experience Africans to their senior management; such men usually have close, personal contacts in higher-level government circles, guaranteeing subsidiaries informal access and a fair hearing on any issue.

This is true of two of the soap subsidiaries, for instance; each has senior African executives with personal, informal contact with senior government officials. The African managing director of one of the firms is, in fact, the former executive director of the Industrial and Commercial Development Corporation, the government’s parastatal body for industrialization and Africanization.

Third, the large profits available to subsidiaries through their market power, offer ways to give local governments and wealthier groups a direct stake in MNC success. The Kenya government’s Industrial and Commercial Development Corporation, for instance, holds 14 per cent of the largest soap subsidiary’s shares; and though these shares represent only 5.4 per cent of total ICDC shareholdings, they generated no less than 40.4 per cent of dividends received from investments. Another shareholder in the same soap subsidiary is a government-sponsored public company, the ICDC Investment Company Ltd, through which the rising African bourgeoisie can invest in publicly-inaccessible, highly-profitable foreign enterprises. This company was explicitly established ‘to enable Africans to acquire an interest in investments in existing industrial and commercial projects’ (see the firm’s prospectus), and had, by 1972, invested the majority of its money in five unquoted MNC subsidiaries, from which it received three-quarters of its dividends. As of 1970, shareholders included government ministers, M.P.s, a provincial commissioner and the
President's brother. The company has invested 32.9 per cent of its funds in the soap industry — from which it received 42.9 per cent of its dividends in 1971 to 1972. These financial alliances give the mnc soap sector important friends in any dispute with government.

In practice such mnc advantages seem to have been critical. Certainly most local soap firms in Kenya complain that they find access to government much harder to arrange than their mnc counterparts; and they see this as one of the mnc sector's biggest advantages. Thus the mnc sector has been able to obtain ICDC loans and it is permitted to exceed local borrowing limitations on foreign firms.

Even more important is the way Kenya's excise tax on soap, as implemented, favours the mnc sector over local firms. As introduced in 1966, the tax was levied solely on a quantitative basis—K Shs 25 per 100 pounds produced of 'soap, soap powder, soap extracts and substitutes therefor'. The M.P. for Mombasa Island (where there were many local soap factories) stressed at the time how this would hurt small-scale producers and benefit the multinationals. Low-grade laundry soap, he noted, sold at Shs 50 per 100 pounds, so the tax would increase its price by 50 per cent; while for twelve dozen tablets of Lux (toilet) soap, which is equivalent to 30 pounds, the selling price is Shs 87, but the excise duty is only Shs 7/50, and the increase is less than 9 per cent. (Kenya, 1966, 1010.) The Minister of Finance conceded the point later in the debate, but the differential impact remained in force and was stressed as a serious disadvantage by the local firms in the survey.  

This analysis does not intend to suggest that soap subsidiaries have a free hand in Kenya. They must negotiate with Treasury and Exchange Control regulatory bodies; Kenyanization of personnel policy affects them; difficulties in import licensing hurt them. But they do have certain advantages of access and expertise in the political economy. And these seem important to the mnc sector's ability to defend the favourable policy environment it inhabits, and to ensure its growing dominance over local firms.

Some Conclusions and Implications
This analysis suggests how mnc investment can work against genuine industrial development in a poor African country. In the case of soap in Kenya, the mnc sector has transferred a package on which its market power elsewhere is based; it has done so in a context of centralized head-office co-ordination. These factors have led subsidiaries to produce differentiated, brand-quality, well-packaged goods; to advertise such products heavily; to transfer high-executive salaries; to operate within certain limitations in export, input-purchasing and wages policy; and so on. These choices have in turn led to high capital intensity in the mnc sector, low backward linkage effects and wasteful changeover costs. The market power derived from this pattern has resulted in a large surplus drain abroad; it has undercut local soap industries and forced them to follow the mnc lead; and it has permitted the deliberate high wage policy that has encouraged further mechanization. At the same time, the mnc sector has been
able to defend its position well, thanks to the political advantages its institutional context inspired.

The pattern has hurt most consumers in Kenya. The machine-made laundry soap they now get is inferior in everything but appearance to its hand-process equivalent. It costs more, too (some Shs 54-59 per case of 25 machine-made bars compared to Shs 49–53 for the same hand-made quantity). And this difference becomes even greater when detergents and toilet soaps are considered; profit margins on machine-made laundry soap, the survey suggested, were some 7½ per cent, compared with margins as high as 40 per cent sought by subsidiaries on their brand-name products. That the latter do obtain such margins is clear form the high mnc profits noted above.

The general impact of this pattern on Kenyan development is also clear. Kenya could have a locally-controlled soap industry meeting almost all of its needs for common cleaning aids — producing mostly hand-made laundry soap and, perhaps, some simpler, non-branded toilet soaps. Such an industry would have higher employment effects, provide better backward linkages, waste fewer scarce resources on advertising and product differentiation, save more foreign exchange, spread regional distribution better, and generate less social inequality. Instead, as a consequence of mnc dominance, Kenya has a soap industry heading in the opposite direction.

In this case, then, the mnc role in Kenya has been negative. But to what degree can this analysis of soap manufacturing be generalized across other industrial sectors in Kenya? This involves two questions. To what degree do other subsidiaries in Kenya exhibit the institutional shortcomings identified in the mnc soap sector? And to what degree does the mnc have local alternatives, likely to be affected by the growth of subsidiaries?

In terms of the first question, interviews with eight subsidiaries in Kenya 
show that considerable variation exists in the institutional context of mnc firms. There are some subsidiaries in which very few of the weaknesses of the mnc soap sector are evident, but most subsidiaries seem rather close to the soap pattern. This is particularly true of those firms controlled by such large, familiar international manufacturers of brand-name consumer goods as: B.A.T., Cadbury-Schweppes, Coca-Cola, Bata, Firestone, Kiwi, Boots, Aspro-Nicholas, Glaxo, Sanyo, Reckitt & Colman, J.C.Lyon, Brooke Bond-Liebig, Nestlé, C.P.C., and Johnson’s Wax. Such subsidiaries are largely directed and co-ordinated from head office, and are transferring a consumer “package” to Kenya. Their heavy advertising is promoting taste transfer. This usually involves increasingly capital-intensive production techniques, inhibitions on linkages, and costly product differentiation. Export restrictions are frequent. Surplus repatriation by subsidiaries is considerable. And their distribution effects increase social and regional inequality in Kenya. Most of the firms also have close relations with government and seem well able to influence the political economic environment they inhabit.
What about alternatives to the mnc? At first, there appear few industrial sectors with competition between mnc and local firms so seemingly clear-cut as in soap manufacturing. Shoes are a possible example, safari equipment another, plus paint, printing inks, textiles and some food products.

This soap study, however, does not, in fact, show a precise case of direct competition. It shows the interplay generated by somewhat different ways of meeting the same basic need — that for common cleaning aids. Until recently this need was satisfied by hand-made laundry soap, but now in Kenya, through the active efforts of the mnc sector, this basic need is being increasingly translated into demand for more sophisticated, western-type cleaning aids. A "taste transfer" process is redefining a simple basic need into demand for Omo, Cold Power, Lifebuoy and Palmolive.

At a more general level, it would seem there is a similar and pervasive mnc impact on local firms, across a wide range of consumer goods sectors. MNC taste transfer is redefining the basic need for drink into demand for Coke or Pepsi; the basic need for food into demand for Lyon’s Maid ice cream or Cadbury’s chocolate bars; the basic need for medical aids into demand for Aspro, Cafenol or Cofta; the basic need for baby nourishment into the particularly dangerous demand for Lactogen or Glucorin; the basic need for transport into demand for Peugeots and Mercedes; and so on. Not only do these translations often leave the consumer worse off, paying higher prices to satisfy redefined basic needs. They also, as in the case of soap, generate industrialization inappropriate to Kenya’s resource base and employment needs. And they establish patterns of demand that are very hard for small-scale, indigenous Kenyan industrialists to meet directly. In that sense, the mnc role in Kenya seems responsible for blocking, in a general way, the development of decentralized local industry in a wide range of sectors.

Indirect alternatives to mnc projects, then, may often exist — alternatives which mnc expansion can undercut. There may be no direct local alternative to a particular project under mnc control — perhaps a chocolate-bar factory, or a dried and packaged soup enterprise. But at the more fundamental level of food needs, there are local alternatives, producing less-sophisticated products, more appropriate to Kenyan resources and social priorities — like small-scale posho mills, bakeries or cheese factories. This is particularly likely for consumer goods. But it is also possible intermediate and capital goods production. There may, for example, be no direct alternative to the mnc for producing cold-rolled structural steel for buildings. But there are alternate building approaches available, for which locally-controlled concrete-block factories and saw mills could provide the materials, with less capital and import intensity, more regional decentralization and fewer foreign exchange losses.

In broader perspective, then, this analysis of soap industrialization may offer a simplified but quite representative example of what often happens as mncs move into less-developed countries. MNCs distort the industrialization that takes place, while they undercut potentially more
appropriate local (direct or indirect) alternatives. Some brief conclusions from the case study may therefore be justified.

In terms of development theory, two points emerge rather strongly. First, simpler, less sophisticated means of meeting basic needs lead to a more appropriate choice of technique, with greater employment effects, than do more ‘advanced’ products. Second, and related, the study emphasizes the importance of the mnc as an agent of “taste transfer” to less-developed countries. It is energetic mnc marketing activity, both before and after the establishment of subsidiary manufacturing facilities, that has permitted product choice in the Kenyan soap industry, and shaped many of the weaknesses of industrialization under mnc auspices. Such marketing activity has also been crucial in undermining local firms. This marketing technology is, of course, only one part of an interdependent mnc package, and it is of greatest importance in the case of consumer goods production. But it still seems to deserve emphasis in analysis, as a critical element in the under-development of poorer countries.

A second set of conclusions relates to government policy. The evidence from this case study suggests strongly that less-developed countries should adopt a very much more sceptical attitude toward direct foreign investment, particularly by consumer sector multinationals. The differing institutional contexts of local and mnc firms, for instance, do seem to generate important behavioral differences in poorer countries; governments of those countries would therefore seem likely to engender more genuine industrial development by encouraging (or organizing) locally-controlled alternatives to the mnc, if such are (potentially) available for meeting the same basic needs.

Some mnc presence may remain inevitable in developing countries, but subsidiaries should face an environment of much tougher government regulation. Such an environment should include legislative action against the constraints suggested by this case study (for example, the Andean pact has outlawed parent export controls on subsidiaries); it should include stricter review procedures for new mnc projects, particularly to examine product choice implications (in this context, Tanzania has recently vetoed an mnc-associated detergent project as inappropriate to the country’s needs); it should also embody ongoing rigorous supervision of and bargaining with subsidiaries already in the country. The Capital Issues Committee in Kenya, primarily under Treasury impetus, has begun to do this, using mnc access to local capital funds as the carrot/stick in the bargaining process. The exercise is weakened, however, by the absence of a comprehensive industrial development strategy within which bargaining can take place, by a shortage of requisite government manpower, and by a lack of universal jurisdiction over subsidiaries (only those seeking considerable local capital, in excess of exchange control regulations, come before the committee).

A successful industrial strategy, however, by the criteria employed in this analysis, will also have to deal directly with mnc taste transfer. This requires strict demand management by government, for instance the banning of certain sorts of products in the same way as Tanzania
has virtually banned the import of private motor cars. It requires restrictions on mnc marketing promotion. And to succeed, it would also require a redistribution of income, to reduce demand for more-sophisticated, mnc-type products, and increase demand for simpler, local commodities. The logic of such a strategy, too, would include nationalizing many brand-name, consumer goods subsidiaries—like the soap firms analysed here—and redirecting their production.

Such a prescription, of course, ignores the special mnc access and influence in the political economy, discussed in section four above, and in that sense it is overly sanguine. The mnc sector in Kenya is clearly helping to shape a class structure that depends on and supports the mnc’s own role in the country. That is itself an important conclusion of this analysis. Its implication is that restricting and reducing the mnc role in the Kenyan political economy, in order to promote broadly-based industrial development, will require a fundamental shift of power in Kenyan society.

A final conclusion is evident. This study points out the serious shortcomings for the developing countries, of the mnc as an institution of technology transfer from the developed countries. The implication is that an important contribution to greater world equity could be the emergence of much less restrictive means of such transfer. This suggests a priority for activity in the richer nations: the development of alternative, non-profit institutions of technology transfer; and the related challenging of mnc control over much technology and most technological innovation.

1. First presented, in somewhat different form, at the Conference on Appropriate Technology, Edinburgh University, September, 1973. I am grateful to Charles Cooper, G.K. Helleiner, Raphael Kaplinsky, Dudley Seers and John Weeks for their comments on the original paper. I also wish to record my appreciation to the Canada Council and the University of Sussex for the financial assistance which made the field work possible.

2. This effect—or any other single characteristic cited—cannot be an absolute priority, of course. A very high foreign exchange cost, for instance, might preclude choosing a labour-intensive over a capital-intensive technique in a given case. Or for a particular product, capital-intensive technology may be so much more efficient, in capital/output terms, as to preclude labour-intensive techniques at virtually any combination of factor prices. At a general level, however, this characteristic does seem an important priority—certainly in the Kenyan case.

3. In Kenya, for instance, in 1967, 50.1 per cent of all manufacturing output was produced in Nairobi, and 51.2 per cent of all manufacturing jobs were found there—though the city has only 4.7 per cent of Kenya’s population. Moreover, Nairobi’s manufacturing workers received average incomes of K Shs 8,660 per year compared with an average of K Shs 4,960 outside Kenya’s six largest urban centres. (Source: Kenya, Census of Industrial Production, 1967, Nairobi 1972.)


5. The statistics are from Kenya, (1972b, 84, 87, 121). For further background information on the Kenyan soap industry, see Reichelt (1970, 161–5, 184–8, 197) and Kenya (1972a, 2, 15ff).
Leaving aside, for purposes of this discussion, the broader question of whether soap manufacturing as a whole represents an efficient allocation of resources in Kenya. Reimer notes that soap production there has a very high effective rate of protection—141.6 per cent by his calculations (sixth highest in a list of 34 product groups); and to this must also be added non-tariff import restrictions. Interestingly, by Reimer’s formula, the detergents and toilet soap emphasized by subsidiaries have a higher effective rate of protection than the laundry soaps emphasized by local firms—since the proportion of value payable in excise tax on the latter product is considerably higher than on the former products. (See R. Reimer, “Effective Rates of Protection in East Africa”, Eastern African Economic Review, 3, 2 December 1971; and below for further discussion of excise taxes in section four.)

In two of three cases, too, subsidiaries have imported some of their machinery second-hand from the parent company. Such intra-firm purchases offer another potential channel for head office earnings from Kenya; as such, these purchases may involve particularly important balance of payments costs—embodying both disguised profit outflows and capital expenditures made abroad rather than in Kenya.

The caveat applied earlier, to the effect that statistics probably understated the large soap subsidiary’s capital/labour ratio (in Table 1), suggests that this figure of 53.5 per cent somewhat overstates the profitability of the firm. The outflow statistics are drawn from interview responses and from the files of the Companies Registry. They assume that the level of management fees in one firm, for which a figure is available in one year, has remained around that percentage of turnover since (1.2 per cent). Usual Kenyan taxes have been deducted in each case—12½ per cent on dividends and 20 per cent on royalties and fees—to arrive at the estimate. The result probably understates outflows slightly, since it ignores interest paid on parent loans and a “very small” supervision fee paid by one of the subsidiaries to its head office.


Government officials stated in the debate that it would be administratively impossible to establish differential rates proportional to the value of different products. However, in a different situation in the 1970s, where an mnc subsidiary concentrated on lower-price production (of shoes), while local firms produced more for the higher-price end of the same product market, government did find it possible to establish a differential tax rate—lower for the lower-price (mnc) output and higher for higher-price output. See The Consumption Tax Act, 1972, Kenya Gazette Supplement, Acts 1972, Nairobi. Shoes priced at Shs. 7/50 or below (like mnc-made plastic sandals) pay Shs. 0/25 in tax; shoes priced at Shs. 50/= to 75/=, by contrast, are taxed at Shs. 6/= per pair.

The basic sample included all foreign corporate controlled firms, with 50 or more employees, in the 1970 Manufacturing Register supplemented by most large foreign corporate controlled companies in commerce, petrol distribution, banking, transportation, mining, advertising and agriculture. Interviews were carried out in 1972–73, with an overall response rate of 88 per cent for 93 subsidiaries approached—though not all firms interviewed responded to all questions.

A three week survey of Swahili radio advertising in Kenya, conducted in early 1973, showed that 80.2 per cent of all advertisements (by time) were sponsored by multinational firms—with Brooke Bond, Nestle, Colgate-Palmolive, Coca-Cola, Unilever, Glaxo and Sterling-Winthrop (all examples of consumer-sector mnc’s, as discussed in the text) the largest of these advertisers, in terms of time purchased.

The costs of this “taste transfer” can include malnutrition and death, according to The Baby Food Tragedy, New Internationalist, 6, Aug., 1973, 9–12, 23; see also Milk and Murder, New Internationalist, 8, Oct., 1973, 1.
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