Foreign Affiliated Enterprises in the Emerging Economies in Asia Pacific; Low Labor Cost and Culture Shocks

Michael Yemoh, National University of Samoa

Marie Passi-Westerlund, National University of Samoa

Abstract

In the most recent decades, we have seen a few competitive multinational organisations opening operations within the emerging economies in Asia Pacific. Unfortunately, some have had to close their operations after some time whilst others have been able to survive and thrive in the region. The emerging economies in Asia Pacific face material resource constraints which makes attracting, retaining, and sustaining foreign direct investments and globally competitive multinational organisations a very valuable contributor to their nations. Many of the economies have the competitive advantage of low minimum wages. However, these appear not to be enough to retain these multinationals. This report presents some considerations which makes the region that has a comparative competitive advantage of low minimum wages, not enough to attract, retain and sustain globally competitive multinationals.

Keywords: competitive advantage, emerging economies, foreign direct investments, low minimum wages

Introduction

The economic development of emerging countries in Asia Pacific' have been affected by the comparative size of the economies, their remoteness relative to other established markets, and the economic and political vulnerabilities to other natural disasters. These tend to be a major factor in the considerations of entrepreneurs during the decision-making processes of choosing locations for business set up, foreign direct investments, relocations and movement of their labour and capital for business purposes. Though many have access to far fewer goods and services, limited poverty exists In the Pacific Island countries. This is because, many can still depend on a subsistence farming lifestyle (Mak 2012) in addition to a majority receiving remittances from overseas which has also seen recent increases due to the increase in emigrations and the number of people working under the seasonal worker' scheme.

The resource constraints thus, makes the introduction of foreign direct investments, transnational corporations, and competitive multinational enterprises into the region a welcome contributor for economic development. The contribution they bring will include expertise, the capital, the technology, human resource, and other resources that when effectively combined and used will lead to economic growth, productivity, and national wealth.

Multinational enterprises and their associated value chains are known to represent a vital share of the private sectors in many developing and industrialised economies as well many of the developing nations. They are estimated to account for an approximate 80 per cent of world trade according to the 2013 The United Nations Conference on Trade and Development (UNCTAD) estimates (ILO 2013). The introduction of multinationals into the region that is comparatively smaller, will have a material socio-economic contribution towards the expansion of the labour, goods, and services markets, improving the quality of human resource and their impact on the economy.

It will also impact the level of international trade that can be transacted by the economy by increasing the number of available baskets of goods and services available in the country. Ultimately, the increase in the factors of production that will be combined towards aggregate productivity will reasonably lead to a positive impact on the national income and wealth of the nation. Some of the multinationals that have moved into the pacific have included Unilever, Lever Solomon's, Commonwealth Development Corporation (CDC), Star Kist, Van Camp, and Colonial Sugar Refinery. Their contributions in the Pacific throughout the decades cannot be underestimated. If the past is a guide that can be used to estimate the future, life in the pacific will be better with a lot more multinational enterprise. Yazaki (Samoa) Ltd. made a number of economic contributions to Samoa such as boosting the GDP, indirectly assisting some industries, providing income for the utility supplying corporations, assisting with easing unemployment and providing income to families (Tsujita, 2019). Some of these foreign affiliated organisations have been able to continue their operations in the pacific, however some have not been so fortunate and have had to cease their operations after encountering some unique challenges.

In the literature, there are two positions on the economic performance impact of foreign affiliated organisations on small island states. On the one hand, there is the argument that the relative size of the Island States places them at a disadvantage. The argument is that there are limited economies of scale available whilst profits are limited. On the other hand, the size is argued as an advantage that can be exploited (Chand 2012a, b). Small size is considered as a great opportunity to test and trial various products as compared to a larger market. There is also limited competition due to the location which serves as a major barrier for many would-be competitors. Once an enterprise can gain a foothold, they will be in a position to earn first mover advantage profits, limited competition and the opportunity to expand their market share with relative ease, all things being equal. Some of the prior work dates to 1986 (Te'o and Parry 1986). One of the academic works that summarises the impact of multinational enterprises in the South Pacific was conducted in 1981 (Te'o and Parry, 1986) which encourages a more recent academic study in this area.

The findings of that research suggested that the main Foreign Direct Investment and multinational enterprise issues were the high cost of import substitution manufacturing, the rigid and inflexible land systems, not fully exploiting the multinational enterprises skills training potential and pricing policies that reduce the multinational enterprises activities to benefit the host nations. Almost every business environment will have its own unique challenges yet, those who are able to operate have to generally overcome them. The presence of other Multinational Enterprises serves as sufficient evidence that many of the various issues raised do have applicable solutions. Other research has also focused on the firm specific benefits to the nations and the pacific (Chand 2012a, b). Others have also concentrated on doing business in the Pacific (Cai and Stiegert 2012), their role in corruption in the region (Windsor 2017), their structure and design (Shenkar et al., 2014) and multinational enterprise trade, growth and inequality in the region (Greaney and Karacaovali, 2017).

This report is economic development focused and reviews the other considerations which makes the region that has a comparative competitive advantage of low minimum wages not enough to attract, retain and sustain globally competitive multinationals. Such research is believed to serve as an area for consideration and a quality input into related economic development policies for the region.

Methodology

We undertook a descriptive qualitative study involving the examination and archival analysis of secondary data, documents, records, case studies, historical records or information in the public domain. Semi-structured review analysis was conducted on the most recent data available related to the Asia-Pacific region and draws on some of the academic research conducted on the labour force in the region. We employed a purposive, selective sample of the available and relevant data from various research depository and other databases on the subject matter.

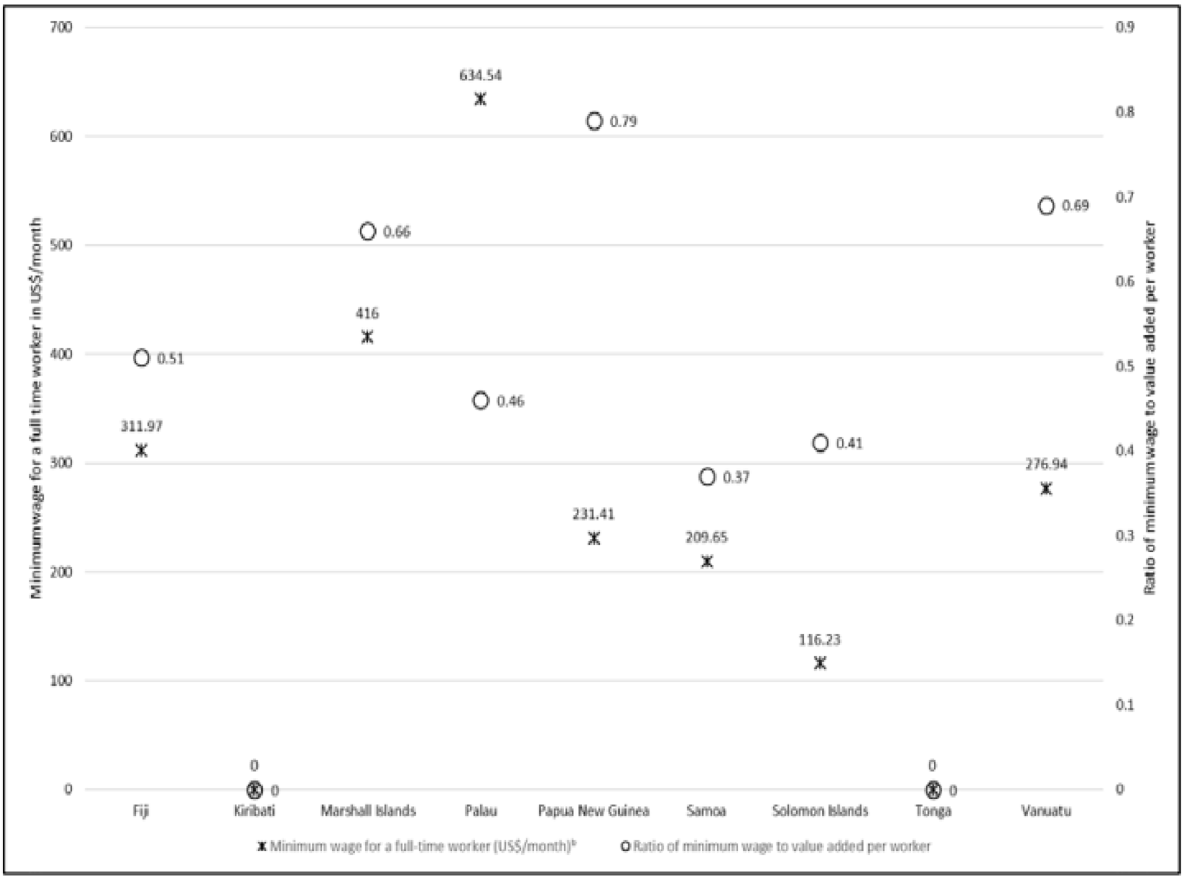
The Minimum Wage in Emerging Economies of Asia-Pacific

The Cobb-Douglas Production Functions is one of the simple yet most used production models which defines a relationship between value-added output and the production factor inputs of capital and labour and technological knowledge. This is the productive activities of all organisations that engage in any form of production that makes use of labour or other forms of capital in addition to technology to produce the goods and services. Underpinning this model is the rational assumption that firms aim to maximise their profit by strategically minimising the cost of production or by the increase in quantity of goods and services sold.

On this basis, before businesses move into the emerging economies in Asia-Pacific, their main considerations will include the cost of labour. This is often reflected by the minimum wage and its associated deviations or the cost of using other factors as input for production and not so much of increasing their sales due to the size of the markets. A reduction in the overall cost of sales ends up increasing the gross profit.

As can be expected, some exceptions apply to the minimum wages and variations exist In the Pacific Island countries with regards to the minimum wage. The varying rules and regulations for paid work across the various economies and territories account for this. The National Minimum Wage in Fiji covers workers in the informal sector, as well as all workers not covered by specific sectoral minimum wages. In Palau, the minimum wage has exceptions related to sector, type of employer, and employee age (Malo, 2017). In Papua New Guinea, exemptions for young people (aged 16-21 years) exist whilst there are different minimum wages for rural and urban workers which is related to exceptions for the agricultural sector.

Figure 1: Minimum Wage in Small Pacific Island Countries in 2016: Levels in US $/Months and Ratios Respect to Value Added Per Worker



Source: Doing Business 2017 (World Bank).

The above figure 1, reflects a comparative minimum wage representation of some of the nations in the emerging economies in Asia Pacific. Majority of the economies have a relatively low minimum wage which then serves as a very attractive path for many of the multinational enterprises who have an option to start operations within Asia-Pacific. With such low minimum wage or lower cost of production with regards to using labour as a factor of production, it is reasonably expected that various firms, especially the multinational enterprises will be looking for the opportunity to expand into the area and start business operations in the region. Some managed to start business operations but after some time had to close due to various reasons. For example, Yazaki, a multinational enterprise and largest private sector employer in Samoa at the time ceased its operations in August 2017. Yazaki in Samoa was employing 671 locals of which 38% were men and 62% women (ILO, 2022). The employment accounted for 12% of the national formal urban workforce and 28.5% of manufacturing sector workers. Under any circumstances, any single institution that can employ that number of people in any country is a positive contributor to that economy.

The benefits they will provide with that amount of workforce goes beyond the income to the workers and its subsequent benefits to their families, but their payment of taxes, the payment that will be made for utility services, the purchases of work related transport services, the payment of pension and superannuation for the workers, the payment for goods and services necessary to attend work, the socio-economic burden that being employed eliminates, the generation of income to the economy, the revenue that will also be recouped into the economy through the international trade that is conducted resulting from the sales of goods produced at the factory, amongst many other benefits. Following the closure of Yazaki in Samoa, the government started to encourage investment in the manufacturing sector to fill the void.

A multinational enterprise like Yazaki has a structure that operates in at least two countries on a scale where its growth, success and major decisions are made on the basis of its global options. Whatever structure and systems that has created a successful business in another domain that can be successfully adapted into another economy will be a great addition to the emerging economies within the pacific. Multinational enterprises do provide the advantages of technology, labour, markets, capital operational diversity, financial resources, multi-national operational size and scope.

Even within technologically advanced economies, the opportunity to be exposed to better ways of doing the same thing or better productive systems that can generate above normal produce or profits will be a welcome addition. Multinational enterprises have contributed in a major way in developing the pacific island economies in promoting trade, transportation, service industries, training, employment, resource development, developing key natural resources, transfer and access to capital and technology (ILO, 2022).

They also provide capital funds for investment that augments the local supply of capital which allows aggregate output to expand. The funds are used to assist the foreign exchange gap. These provide the much-needed foreign income for the National reserves or current expenditure of the economy. The multinational enterprises provide new products and services that may be missing from the markets. They also provide the factors of production, resource inputs that are either scarce or not available in the pacific economy which provides a lot of consumer surplus, government revenue through taxation and improvement of national welfare.

The Pacific Island Countries face numerous challenges in forging sustainable economic growth. One government official from Niue reportedly stated that “there was no such thing as unemployment in Niue as a Niuean can either go to the bush or sea to survive although it is becoming increasingly common that the subsistence lifestyle is disappearing in highly developed Pacific Island economies like Guam and Hawai’i (Mak, 2012). The MNE’s provide an added option to that way of sustainable living. In the Pacific region, the impact of multinational enterprises and the associated value chains extends to every area of trade, industry, services, and business activity. In general, Pacific Island Countries’ exports have increased by 169% over the past 20 years, reaching $9.6 billion in 2013(Justwanto and Ali, 2016).

Food and live animals accounted for 17% of exports while crude and mineral oils comprised the bulk of export earnings between 1993 and 2013. The Multinational Enterprises also provide job creation, in addition to supplying in some cases the skills development. Additionally, they facilitate productivity factors transfer that stimulates economic development (ILO, 2013).

Many engage in socially responsible operations and contribute effectively to sustainable and inclusive development whilst engaging in multi-stakeholder or industry initiatives. In PNG, Foreign Direct Investment dominates the large-holder agriculture sector and subsequently the associated export (Xu et al., 2018).

In Solomon Islands, Foreign Direct Investments are responsible mainly for Copra and palm oil. In Vanuatu, foreign affiliated companies are involved in Copra production, whilst in Fiji, they are involved in Sugar production, and Tuna processing in American Samoa.

Some of the disadvantages of multinational enterprises have been suggested to include adverse impact of the activities on the host nation, becoming a dominant force in the home country, monopoly power, sometimes the size of the economy allows them unmonitored access and opportunity, transfer pricing, national policy intervention, employment and training policies that have adverse effects. Many of these can use their expertise and capital to quickly become market leaders in the countries they operate in.

This does not necessarily point to stopping them from operating but rather points towards the setting up and review of the laws and regulatory environment in which they operate. Stricter and tougher laws may be the answer. The Pacific Island Countries are small and far from world markets, which means that labour mobility that could potentially improve productivity in the region is limited. The distance from other economies translates into a higher cost to move to and work in the region. Due also to the lower wages in most of the economies, it becomes difficult to pay the level of wages that could attract the best candidates for the job openings.

Recruiting the best labour into the economy becomes challenging whilst losing some of its capable and able workers to the recruitment drive by the more developed economies in the region (Yemoh, 2022).

Attracting and retaining the multinational enterprises in the emerging economies in the pacific represents one of the most significant and substantial opportunities to overcome the employment constraints (The World Bank 2022). Most of the economies have a higher percentage of unemployment and a material portion of the workforce working in informal labour markets.

As such, any adjustments that could increase the recruitment will be a positive economic step. Due to the slow economic growth in many economies, the further geographical obstacles, population growth, the presence of regulatory barriers accelerating urbanisation means that employment creation is a pressing priority for small pacific island countries. The minimum wage payable to labour may be a barrier that may need an appropriate strategy to entice labour. Although the strategy will vary between these countries, given their diversity, size, location, natural resource endowments and demographics, strategies like the seasonal workers schemes are an important opportunity being given to many of the workers through the expansion of work opportunities for pacific people (The World Bank, 2022).

Culture and Other Factors Restrict the Gains from Cheap Labour

Statistically, the backbone of the Pacific Island economies has been Agriculture in addition to the provision of services. These have served as the main sources of livelihood as well as a major export earner for the region. Which have had material implications for all the sectors within the economies leading to the classification of most of these economies at the lower end of economic development.

A United Nations (UN) group's classification, on the basis of low socio-economic development and vulnerability to external shocks, found that the least developed countries were largely agrarian economies that also suffer from low investments and low productivity (UN, 2020). This is a classification that extends to most of the emerging economies within the Pacific. Furthermore, the report suggested that Agriculture, forestry, and fishing represented approximately 21 percent of value added as a percentage of GDP for the least developed countries from 2011 to 2018. This is also true for the emerging economies. Being agriculture based is the resulting focus of development or the signal or the cause of the economic level. A least developed country-list of 46 member states that were assessed in 2022, 33 were from Africa, 12 in Asia, 1 in the Pacific and 1 in Latin America (UN, 2020).

Many of the emerging economies in Asia Pacific are also comparatively and relatively smaller markets and thus much of the multinational enterprise operations and productions are directed to the export markets. The development inputs utilised by most multinational enterprises in the pacific then tends to be primarily directed to the utilisation of local labour and production factor engagement for international markets. This does generate a great deal of income for the economy as compared to the aggregate quantity of goods and services provided.

Multinational enterprises have particularly been involved in the services sector in the pacific region through the provision of import, wholesale and retail, financing and other services primarily oriented towards trade activities. This constitutes recruitment and contributes wages to the workers with the added multiplier effect on the economy, through the increase in aggregate income, national income, gross domestic products, and per capita income. Their benefits extend to the mobilisation of indigenous and international productive factors, which is liable to leakages.

There multinational enterprises face other unique challenges in the emerging economies in Asia Pacific. To encourage Foreign Direct Investments into these economies by MNEs, some of the economies have instituted policies that restrict their access to capital from the local financial markets which invariably add to their cost of operations. Fiji, for example, has restrictions in place for multinational enterprise subsidiaries with regards to borrowing (Te'o and Parry, 1986). After 25 years of operations in Samoa, the country's biggest private employer, Yazaki Samoa Eds, officially shut down with a loss of 700 employees with a composition of 60 per cent young people. 62% are women and 50% are sole income earners in their families (ILO 2022 and Lesa 2017).

Yazaki workers were reportedly generating about $1.04million in total annual income circulating in the economy and each worker had an average of 10 or more people who depend on them every day, every week.

One of the most notable factors that multinational enterprises have to encounter and deal with is the culture shocks that operating in a new environment comes with. It is not only encountered in the Pacific region alone but in every instance where new operations have to be started in a new area that has unique characteristics that are different from one's home country. For example, the work culture in Australia, New Zealand or China are not exactly the same as the culture in countries like Solomon Island or Samoa with regards to things like Saturday work, weekend opening hours, availability of public transport to facilitate workers to and from work, the lack of food that the workers are used to having migrated into a new environment, the power that other non-work related obligations have on workers being present or absent from providing productive work hours, and many other differences that may exist. One of the main challenges that multinational enterprises face in the emerging economies in Asia Pacific is where does the culture end when it comes to productive paid work. What are the costs of major culture shocks like lack of public transport throughout the week and all hours of the day should corporations need to work outside the official working hours.

Due to the remuneration and the opportunities to engage in informal work and other remittances that workers may have access to, the tendency for labour to be unreliable and committed to their paid employment that may be low paid. In such cases where paid work is a second option, many business owners face untold struggles to attract, sustain and retain quality and good workers. The Isolated location also makes it difficult to gain access to another alternative workforce.

Asia Pacific offers a lot of promising growth opportunities, but it also presents high levels of uncertainty for multinational enterprises. The size of the islands and economies normally means that many value-added tools are absent in addition to resource constraints and limitations especially with regards to the labour markets. A bigger economy will have various developed labour market quality assurance tools, brokers, monitors, regulators, and other tools that are present in the labour markets of the developed economies. One of the main things missing in some of the emerging economies in Asia Pacific is the limited number of competitive service providers like recruitment agencies. Many recruitments in some of the economies are done on Facebook, through word of mouth or limited job placement sites (Yemoh, 2022).

Also, with the introduction and operation of the seasonal workers scheme, many workers who qualify for the scheme are largely looking for a job in the local market that provides money in the short term whilst they wait on their primary goal of travelling overseas. Most of the wages they will be earning is not far from the minimum wage which also affects the motivations for work.

The culture of ending work at 12noon on Saturday till Monday in some countries in the pacific also serves as a shock to some of the investors. Except for private businesses and Foreign Direct Investments controlled firms, which all constitute a materially insignificant fraction of the workforce, the majority of workers are not officially obligated to engage in productive labour hours at the same rate of pay that they would have been involved in like they did during the working week. Any work during this time can only be undertaken legally when the employer engages them under the official holiday pay.

This includes public transport which traditionally feeds and facilitates workers from all over the islands to their places of work. Without the publicly subsidised transportation, the cost to transport the workers to and from work becomes far more expensive compared to the apparent benefit they will receive from the wages even if the official double pay is paid to them.

Many of the employers are also not in the position to pay the extra fee and cover the cost due to the income generated. Comparing the cost they will incur during the working week for the same workers to contribute their hours of work to what it will take to engage the same workers over the approximate seventy hours of work, the economic rational choice leads to not engaging workers during this period. Seventy hours every week for 52 weeks if lost by employable organisations and government institutions aggregately imparts the labour force participation, it also restricts the contribution to the aggregate output and ultimately the income and GDP of the economies.

In some countries, every day of the week is not treated differently with regards to conducting paid work. This will present a major shock especially to some of the investors who may be from different faith and religious persuasions that allow them to conduct business activities at various times and days of the week.

The joint venture and local equity requirement in some economies that can normally be found in resource-based projects also serves as a hindrance in some cases. An interesting example was the Westpac Banking Corporations arrangements with Tonga, Kiribati, and Tuvalu (Te'o and Parry, 1986). Having to share equity with others that may not be the original intention and interest of an investor may not be something that every investor may be comfortable with.

Investors whose background is from economies that may be different in its requirement for operating even as a foreigner in that country may struggle with such an idea.

It may even be extreme for an investor who may have spent several years to build up their portfolio of investments and business operation to grapple with the idea of having to share the ownership of their business with a native of the country they are intending to move into especially when they may not be suitably qualified or experienced to provide, what to them is a material contribution to the business.

This is further strengthened when the investor may have other alternative economies to move their businesses to that may not have such seemingly restrictive policies.

Conclusion

Foreign Affiliated Enterprises have been operating globally for decades now and can now be found in many of the emerging economies in Asia Pacific. One of the attractive qualities of operating in the Pacific is the lower cost of the labour factor of production. The Foreign Affiliated Enterprises do provide advantages including technology, labour, markets, capital operational diversity, financial resources, multi-national operational size and scope in addition to many others. At the same time, there are also disadvantages that can come with their operation especially if they are left unchecked. Besides the great benefits of attracting, and retaining them in the region, there are also challenges that they may face when they start their operations. Yazaki Samoa was one of the businesses that could not continue its operation after a few years of operation. One of the core challenges that multinational enterprises face is the culture clash. The work culture in the emerging economies in Asia Pacific, may sometimes be different from their home countries. The availability of public transport may also be different from their home country. Although the challenges do exist, the presence of other multinational enterprises in the emerging economies in the pacific signal that the challenges can be overcome.

Implications

The method chosen was the selective, purposive and public domain based review. Thus, opportunities exist for fellow researchers to undertake further and deeper analysis of the causes, reasons, effects, characteristics and trends of the foreign affiliated enterprises in the region. Other research could extend the factors considered in this research to include things like the legal infrastructure in the region, the business communities and their characteristics, the culture and attitudes towards the operators of such businesses or the financing of such organisations especially in the midst of some of the restrictions that are imposed on them and its impact on their operations. Further research could also incorporate interviews of the current successful businesses and where possible the failed business operators with regards to finding out other factors that may have been missed out of these findings. The conclusions that have been drawn from these can serve as inputs into the policy and practice, regarding the operation of foreign affiliated enterprises in the Asia-Pacific region.

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